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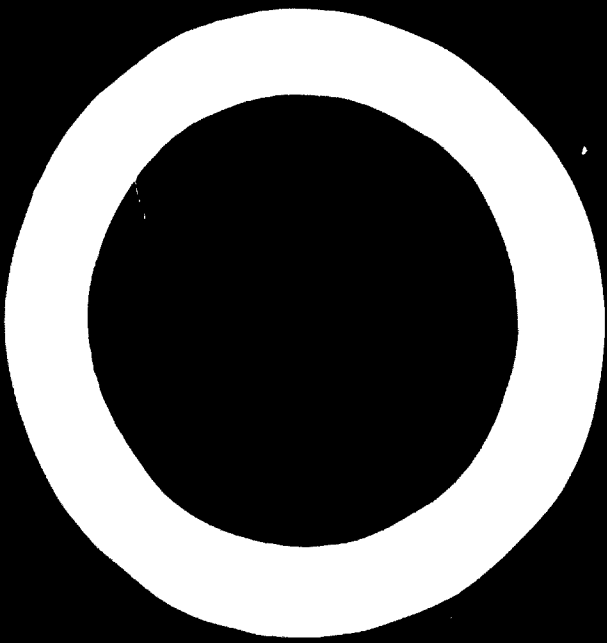
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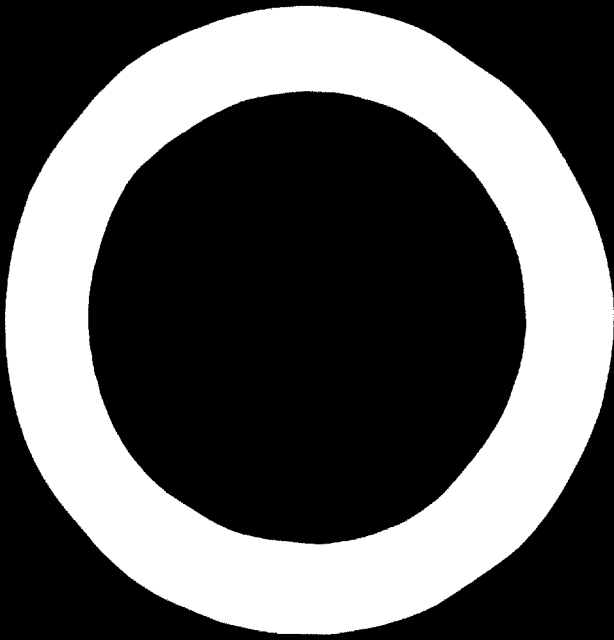
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in  
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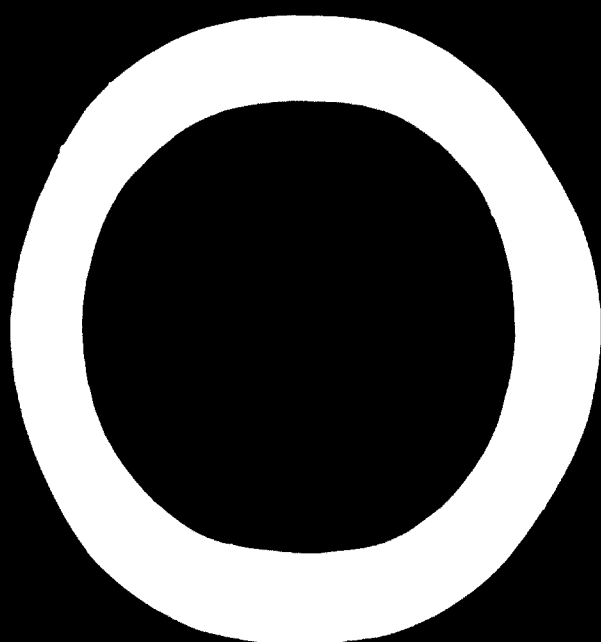


UNITED NATIONS





**MARKETING  
AND EXPORT POSSIBILITIES  
FOR LEATHER  
AND LEATHER PRODUCTS  
MANUFACTURED IN DEVELOPING COUNTRIES**



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION  
VIENNA

**MARKETING  
AND EXPORT POSSIBILITIES  
FOR LEATHER  
AND LEATHER PRODUCTS  
MANUFACTURED  
IN DEVELOPING COUNTRIES**



UNITED NATIONS  
New York, 1972

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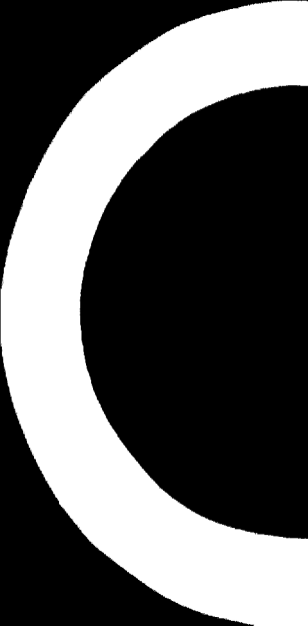
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## **PREFACE**

**This paper was prepared by D. Winters of Wattle Export Development, London, as consultant for UNIDO, for the Seminar on the Development of the Leather and Leather Products Industries in Developing Countries, Regional Project for Africa, held in Vienna from 22 February to 5 March 1971.**

**In his paper, Mr. Winters discusses the possibilities for increasing exports of leather and leather products. He points out the obstacles that will be encountered and suggests ways of overcoming them. The major markets and items that are in greatest demand are discussed briefly. The views and opinions expressed are those of the consultant and do not necessarily reflect the views of the secretariat of UNIDO.**





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### **EXPLANATORY NOTES**

**The term "billion" signifies a thousand million.  
Reference to dollars (\$) is to United States dollars.  
One cent equals \$0.01.**

## I. INTRODUCTION

Up to recent times the leather, leather goods and leather footwear industries have been concentrated in the developed countries of the world, with the developing countries acting mainly as suppliers of the raw materials. The total trade of these industries is today worth approximately \$2.3 billion.<sup>1</sup>

Within the last decade, however, the developing countries have made great efforts to make better use of their natural resources so that now the percentage of goods exported in the raw state is somewhat lower than it was previously. The advantages of plentiful raw materials and abundant, low-cost labour make it possible for many of the developing countries to begin making semi-finished or finished leather goods for export. Conditions in the developed countries also work to the advantage of the developing countries: labour costs have reached very high levels, as workers who have had the benefit of an education are reluctant to do the wet, dirty work of the tanneries; and many countries have established severe limits for chemical concentration of tannery effluents. All this means that leather production in the developed countries is becoming more expensive and more difficult. In the light of these conditions, the future for leather-producing developing countries seems promising.

### Tanneries

The leather industry in developing countries may be divided into two main categories: traditional, rural tanning units, which are, in general, non-mechanized and therefore not capable of producing high-quality leathers to uniform standards; and in many of the recently independent countries, new, large, fully mechanized units. Midway between the two main groups are the small mechanized tanneries that follow the fortunes of one group or the other, depending on their size and efficiency.

Results to date with respect to domestic production and exports have been very mixed. Most countries have been content with the decrease in imports of leathers and leather products for domestic consumption. Few have seriously attempted to enter the export market, and most of those that have succeeded in doing so have built and operated tanneries in co-operation with tanneries in developed countries, thereby obtaining automatic export markets and sales expertise.

With the exception of certain well-established articles such as Nigerian vegetable-tanned crust leather from goatskins, exports from the rural tanneries have

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<sup>1</sup> Food and Agriculture Organization of the United Nations (1970) *The World Hides, Skins, Leather and Footwear Economy*.

been negligible. Exports from the small mechanized tanneries have declined, perhaps because of the competition from the large tanneries whose more modern machinery makes cheaper and more uniform production possible.

### **Leather footwear**

Recently established shoe factories in developing countries have tended to be large mechanized units built to feed the rapidly growing domestic markets. Much of the footwear produced is not made of leather, however. Since there is no tradition of wearing leather footwear in many of these countries, footwear made of synthetic materials and plastics is easily introduced and accepted at comparatively low prices.

The rural artisans that produce completely handmade articles and the small- to medium-scale semi-industrialized artisan workshops are fighting for their existence against these large units. They have been unsuccessful in exporting leather shoes and have lost much of the local market, thus losing their viability. They are either unwilling or unable to re-equip to face this competition.

From the standpoint of the leather industries and potential export, this is a disastrous trend, as the small to medium-sized plants have the experience and trained operatives to produce 100 per cent leather shoes of medium quality—the most valuable article of international trade in this field. Their main problems are: low volume of production; outmoded machines; and what is more important, lack of contact with overseas markets.

### **Leather goods**

The manufacture of genuine leather goods in developed and developing countries alike is usually carried out by artisans; mass-production methods to date have not been found feasible. Artisan production in the developing countries is based mainly on the traditional styles and designs of the country concerned and, with the exception of some South American manufacturers, little effort has been made to produce articles suitable for the vast export markets.



## II. MARKETS AND EXPORT POSSIBILITIES

International trade is expanding rapidly and there are large markets for shoes and leather goods if the right products can be made available at the right time. Table I gives the figures for footwear with leather uppers imported by three developed countries over a five-year period. These three countries represent a good cross-section of the consumer markets in footwear, and indications are that this trend towards expansion (which also prevails in the leather goods sector) will continue as genuine leather goods and shoes require high inputs of labour, which today is an increasingly expensive commodity in developed countries.

**TABLE I. IMPORTS OF FOOTWEAR WITH LEATHER UPPERS FOR THREE DEVELOPED COUNTRIES**

	<i>Volume of imports (million pairs)</i>	<i>Value of imports (million dollars)</i>	<i>Percentage increase (pairs)</i>
<i>United States of America</i>			
1963	26.2	69.9	
1968	85.1	263.5	225
<i>Federal Republic of Germany</i>			
1963	17.7	56.1	
1968	43.9	135.5	148
<i>United Kingdom of Great Britain and Northern Ireland</i>			
1963	10.4	32.8	
1968	14.9	25.1	43

*Source: Organisation for Economic Co-operation and Development (OECD) The Hides, Skins and Footwear Industry in OECD Countries, various years, Paris.*

Table 2 shows the rapidly growing export figures of some of the leading footwear-exporting countries. It should be of particular interest to the developing countries that in some of the leading exporting countries mentioned here, e.g. Spain and Italy, large volumes of leather are produced in mechanized, artisan-type tanneries. Shoes and other leather goods are also produced at the artisan level.

TABLE 2. FOOTWEAR EXPORTS OF SELECTED COUNTRIES, 1966-1969

	<i>Value of exports (million dollars)</i>				<i>Growth of exports (per cent)</i>
	1966	1967	1968	1969	1966-1969
Italy	275	342	453	571	108
Japan	80	100	125	128	60
Spain	17	33	63	95	459
Portugal	5	7	10	10	100

*Source:* United Nations Statistical Office, *World Trade Annual*, 1966-1968, Vol. III, 1969, Vol. IV, Walker, New York.

To put matters into perspective, the export prices for a material—e.g. East African hide (8-12 lb, 30 per cent first grade, 40 per cent second grade, 30 per cent third grade)—at different stages of processing are shown in table 3.

TABLE 3. EXPORT PRICES FOR EAST AFRICAN HIDE AT DIFFERENT STAGES OF PROCESSING

<i>Stage of processing</i>	<i>Cents/ft<sup>2</sup></i>
Raw, air-dried	14
Wet-blue	19
Vegetable-tanned crust	23
Finished, upper	32

When processed into finished articles such as leather goods and shoes, an effective export price of up to \$1.00/ft<sup>2</sup> for the materials used may be obtained.

From the foregoing it may be concluded that conditions in the developed countries are such that developing countries should readily be able to market their leathers and leather products provided they produce the correct design and quality of goods at realistic prices and reorganize their channels of trade and communication.

### General problems of export marketing

The problems of marketing leather and leather products abroad are further complicated by the very nature of the raw material. The heterogeneous character of the natural product, which is sometimes magnified during the manufacturing process, makes it almost impossible to sell solely according to specifications. (This problem, which is not always understood by Governments, is fully understood by those engaged in the industry.)

It follows that association between potential exporter and importer must be particularly close. This close association has a dual function: it allows the importer to show the exporter what is required in the market areas while allowing the latter to show what products he can offer. The importer will then advise the exporter on how to adjust his production to suit market requirements.

If he is to obtain orders, the exporter must satisfy the importer that he can produce the right article at the right time and at the right price. Time is all-important, for patterns in trade and fashion vary rapidly. Exchange of advice and samples must be carried out quickly.

Unfortunately, this problem of establishing and maintaining close relations with importers remains one of the biggest and most important still to be overcome by the leather industries in the developing countries. Few manufacturers are in close touch with importers. Many manufacturers who wish to export lack the necessary market information. Unless the manufacturer is fully aware of the market requirements as regards currently fashionable style, colours, quality of materials and workmanship, and prices, he is unable to offer a good sample. The potential importer, for his part, is naturally unwilling to commit himself until he is satisfied that the manufacturer can produce, on time, goods of a consistent quality and of the right style and finish. Building up this confidence takes time, and it is essential that some means be found of assisting manufacturers in developing countries to make these close ties with importers. It is especially important to assist them during the stages of preliminary sampling and initial bulk orders, when both sides can gauge the profitability of the operation.

Distance from customers is a further hindrance to prospective trade. Developing countries are often from one to three months' shipping distance from the more affluent of the consumer markets. This time can be drastically reduced by using air freight but, except for high-quality leather goods and top-grade leathers, the cost outweighs the advantage of time. The producer in the more distant developing country is thus at a great disadvantage as compared with the producer in the developed country and might be better advised to avoid the production of fashion goods altogether and concentrate on the more conventional items even though the profit margins in this sector are lower.

Leather and leather products are manufactured in enterprises of various sizes. The larger units are usually equipped to produce goods meeting international standards of quality and are able to participate in the export trade. Small and medium-size units, which in many countries have most of the production capacity, cannot at present enter the export field economically, since they are unable to produce good-quality products in sufficient bulk owing to their size and low level of mechanization.

Pooling of products might enable small manufacturers to become exporters. Until processes are more standardized in small (often rural) tanneries, however, it will

prove difficult to pool products. This problem is not felt, for instance, in northern Nigeria, where high volumes of vegetable-tanned crust skins are exported, because the tanners all use similar processes under nearly similar conditions.

### Export of semi-processed leathers

Semi-processed leathers include pickled, chrome-tanned, traditional vegetable-crust tanned and the recently introduced fringe tanned leathers. Although the production and export of semi-processed leathers offer certain economic gains to a developing country and some of the processing stages may be regarded as a means of developing the industry, the production of semi-processed goods should not be the final goal of any tannery. Pickled and wet-blue leathers have only a marginal price advantage over the raw material. For example, in Argentina salted hides fetched \$7.40, pickled hides \$8.14 and wet-blue hides \$8.51. These slight gains in export prices must be viewed against a potential price of \$10 to \$11 for the same hides when processed to a crust state.

The pickling process, which has been applied to skins, particularly sheepskins, for many years, has recently been applied to hides, notably in the United States. However, initial problems have not yet been overcome, and some difficulty has been experienced with reprocessing leathers so treated. The gain in foreign currency does not suggest pickling to be a lucrative practice to enter into, except for large packer houses, which can do the work efficiently and cheaply. Pickling is certainly not recommended for smaller tanneries in developing countries, as rigid process control is essential in order to maintain regularity of production and the smaller tannery usually is not able to work to these standards.

It should also be borne in mind that to process pickled and wet-blue tanned leather large amounts of chemicals must be imported, which reduces the apparent gain in foreign currency. To quote from a paper presented at the Fourth Congress of Scientific Societies of the Leather Shoe and Allied Industries, Budapest, 1970:

"In early 1969 a serious controversy arose as to the advisability of exporting leather. An impartial analysis was made . . . about the relative advantages of exporting wet-blue and vegetable-tanned sheepskins. This study showed that chrome-blue export fetches less foreign exchange, involves less labour and time content and high packing and freight charges. It is recommended that wet-blue export should be done concurrently with vegetable-tanned leathers and only at the expense of raw material exports."<sup>2</sup>

It appears that pickled and wet-blue leathers may well be profitably produced by individual tanneries (thanks, in many cases, to the structure of export taxes and levies), but from an over-all national economic viewpoint they have only marginal advantages over the export of raw hides and skins.

There are several reasons for this. In the production of vegetable-tanned leathers a large amount of indigenous material may be used, even though it is often augmented with imported vegetable tannins and auxiliaries. More importantly, wet-blue tanned leathers, no matter how they are finished, tend to have much less

<sup>2</sup>Y. Nayudamma and K. T. Sarkar, "Crust Leathers for Export: Some Problems", paper presented to Fourth Congress of Scientific Societies of the Leather Shoe and Allied Industries, Budapest, 1970.

area yield than vegetable-tanned leathers when finished, the differences in area varying from 8-20 per cent.<sup>3,4</sup> Notwithstanding this loss of area, it seems certain that exports of wet-blue tanned leather will continue to grow over the short term. In the long term their future seems most doubtful, especially when the difficulty of grading and measuring the products in this state is taken into account, and most likely the trend will be to a crusted material or to a "ready-to-finish" state. This, however, will have to wait until the present technical problem, the difficulty of wetting back crusted chrome leathers, has been overcome.

While vegetable-tanned leathers have the advantage of larger area yield, they require more chemicals in their production. However, normally the selling price more than recovers this for the producer.

Vegetable-tanned leathers do, however, suffer from several defects. They permit the use of only certain colours and styles, although when it comes to corrected grain leather they have better "buffability" than chrome-tanned leather (thus enabling more defects to be removed before the grain is finished). It is unfortunate that with the introduction of "direct-moulded" shoes, vegetable-tanned leathers lost popularity for use as a shoe upper material. It was assumed that these leathers, when semi-chromed, were not suitable for the purpose. However, on this point there is little doubt that, provided the reprocessing of vegetable crust is well controlled, a satisfactory upper leather may be produced that may be used in direct-moulded shoe production.

The recently introduced "fringe vegetable tanning" process appears to overcome many of the problems associated with wet-blue chrome. It can be easily measured correctly (on pinwheel machines); defects can be easily seen; it is light and easy to transport; and it can be stored for long periods. In addition, it should give the importer/reprocessor full control and flexibility in his production whether he wishes to retan with chrome, vegetable or syntan or even with a mixture of these. It should also prove useful in countries lacking supplies of indigenous tannins, as imports can be kept to a minimum (7-12 per cent of a relatively cheap material). Leathers produced by this process are undergoing market tests, and the first indications are that the product will live up to the claims made for it, namely, that it can be retanned into virtually any type of leather, e.g. shoe upper, garment etc., accepting the properties of this retannage. It remains to be seen whether the industry in the consuming areas will be prepared to pay realistic prices for this material. If reasonable prices can be obtained for exports, this form of crust leather should prove a useful alternative to wet-blue chrome—especially for those countries that are thinking of developing their tanning industries at a primary level.

Several papers published recently have proposed increased production and export of ready-to-finish leathers. There is little doubt that this is the most logical type of production for developing countries. It permits them to obtain the highest possible yields of foreign currency and allows the importer/consumer to finish the material in the styles and colours in demand. By processing to the ready-to-finish state, manufacturers avoid most of the problems involved in selling finished leather, yet obtain in the export markets a price that is only 5 or 6 cents per square foot less

<sup>3</sup> Ibid.

<sup>4</sup> J. H. Atkinson and F. Scowcroft, "Preservation of hides and skins by 'Low Veg' or 'Fringe Level' Tanning for the Development of an Export Industry", paper presented to the Seminar on the Development of the Leather Products Industries in Developing Countries, Regional Project for Africa, Vienna, 1971. (mimeo.)

than that for finished leathers. As it is in the interest of both exporter and importer to market the goods in this form, ready-to-finish leathers should be the ultimate objective of tanning industries in the developing countries for the immediate future.

As mentioned earlier, tanning industries in the developed countries are encountering production problems. As a consequence, there are large markets for preprocessed material in virtually all the countries that previously imported raw hides and skins. The centrally planned economies of Eastern Europe have greatly expanded their importation of hides, skins and leather over the last five years. However, the requirements of these countries are often met by national trade agreements or by large-scale barter arrangements, which are not suitable for many countries producing leather in small units. This increased demand from the centrally planned economies has been met largely by South American and Indian suppliers, which partly accounts for the impressive growth rate of Argentine exports of semi-processed leathers.

In 1967, Argentina exported 1.2 million tanned hides; by 1968, the figure had risen to 1.9 million and in 1969 to 3.1 million.<sup>5</sup> These figures include both finished and unfinished leathers, but the finished leathers constitute only some 7 to 10 per cent of the total leather exports. Of the remainder, in the early years the vast majority were wet-blue; but the percentages have altered until, today, these are outnumbered by other semi-finished leathers such as the vegetable-cruled and chrome-retanned, ready-to-finish leathers.

Surely, with appropriate governmental assistance, other countries could emulate the success of Argentina. In this connexion it should be noted that the introduction of export levies and/or taxes on raw hides and skins can play a useful role provided that the rates are quickly adjusted to market conditions.

### Export of finished leathers

Exports of finished leathers present two main problems. The first is that in many developing countries the technique of finishing is not yet as highly refined as it is in the developed countries, with their longer tradition of leather processing. This is perhaps due to inferiority of materials and to lack of skilled operatives. However, vast improvements are being made in this area, and it is likely that the situation will change within the next decade.

Of greater concern is the problem of colour and customer requirements. When export has been attempted from developing countries, the stumbling blocks have usually been the lengthy delivery time and the lack of close liaison on questions of quality, substance, feel etc. When buying leather, the shoe manufacturer customarily orders from the tanner in large quantities without specifying the colour. At a later stage he gives colour instructions for a percentage of his requirement and sends a sample. He expects the sample to be matched and the goods delivered at the factory within two to four weeks. Most developing countries have found it almost impossible to keep to such a schedule, even with the use of air freight. In general, their tanneries have been forced to concentrate their export activities in finished leathers on black and brown standard colours. These, however, do not fetch the high prices of "fashion" colours.

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<sup>5</sup> Argentine Leather Cuerecon Directory (1970) Buenos Aires.

An additional difficulty is that the customs duties the importing countries place on finished leathers are heavier than the duties on semi-processed leathers. Thus, it is unlikely that the developing countries will make rapid advances in exporting finished leathers to developed countries.

Concentration on the production of finished leathers for subsequent manufacture into leather goods or shoes would seem to offer the best possibility for the tanning industry to utilize fully its potential. Exports of leather goods earn far more foreign currency than exports of finished leather. Furthermore, their manufacture opens up new opportunities for employment of labour. Tanning industries in developing countries might set up their own finishing units in the consumer market areas (most likely in co-operation with existing tanners or merchants in such countries); this possibility is discussed in a later section.

The potential markets for finished leathers (notwithstanding the problems mentioned above) are very similar to those for semi-processed materials. In addition, markets exist in one or two developing countries that have recently set up shoe factories but do not have the tanning capacity to satisfy their own requirements.

One particular item that is coming back into favour as an article of world commerce is sole leather. In Italy, imports of this item have grown as follows (expressed in thousand metric tons):<sup>6,7</sup>

1961	1962	1963	1964	1965	1966	1967	1968
0.11	0.22	0.90	1.83	2.92	3.69	8.26	9.9

Italy's requirements of sole leather are expected to increase, since the demand, which is tied to exports of shoes and leather goods, cannot be met by its own capacity. This sole leather must be of good quality, and the quality depends on both the raw material and the processing; this requirement may prove too difficult for the small producers of Africa and Asia to fulfil. Their competitors in South America are fortunate in having plentiful supplies of more suitable raw hides to process.

In addition to the markets for finished leathers (mostly shoe uppers in standard colours) in the established markets of Europe and North America, markets exist in the centrally planned economies of Eastern Europe. However, these markets are for large volumes of material of uniform quality, something that is very difficult for tanners from typical developing countries to provide. They are more suitable for the exporters from the larger South American countries who have facilities for large bulk production and are able to negotiate the difficult "barter arrangements" that often accompany these orders.

### Export of leather footwear

The consumption of footwear throughout the developed world has recently become rather static or shown signs of only marginal increase. Demand in the developing countries, however, is growing quite rapidly as standards of living improve

<sup>6</sup>OECD, *op. cit.*

<sup>7</sup>United Nations Conference on Trade and Development (UNCTAD)/General Agreement on Tariffs and Trade (GATT) International Trade Centre (1968) *Hides, Skins and Leather—Major Markets in Western Europe*, Geneva.

and urban development increases. Notwithstanding this apparent levelling off of consumption in developed countries, developing countries have good prospects for exporting leather shoes to the developed countries. Leather shoes, unlike plastic shoes, require large inputs of labour; since the cost of labour in developed countries is high, great scope is given to those countries that have lower labour costs.

In the past decade exports from Italy, Spain and other countries to North America, Western Europe and the centrally planned economies of Eastern Europe have grown, until today world trade in shoes has reached over \$1 billion. However, these exports have not augmented national production in the importing countries; rather, they have had the effect of reducing domestic production, with the result that some countries are considering limiting shoe imports. The effect of imports on domestic production in some typical countries may be seen in table 4.

**TABLE 4. PRODUCTION OF FOOTWEAR WITH LEATHER UPPERS IN SELECTED COUNTRIES**  
(Million pairs)

	1965	1966	1968
United States of America	535.2	535.9	529.5
Federal Republic of Germany	122.7	117.3	119.1
United Kingdom of Great Britain and Northern Ireland	128.3	119.6	110.8
Sweden	10.1	8.2	6.7

Source: Organisation for Economic Co-operation and Development (OECD) *The Hides, Skins and Footwear Industry in OECD Countries*, various years, Paris.

Table 5 shows the rapid increase in footwear imports in selected countries.

**TABLE 5. FOOTWEAR IMPORTS OF SELECTED COUNTRIES**  
(Million dollars)

	1966	1967	1968	1969
United States of America	190	263	388	488
Federal Republic of Germany	144	134	174	212
France	34	41	57	86
United Kingdom of Great Britain and Northern Ireland	63	73	79	85
Canada	32	39	50	60
Belgium-Luxembourg	40	43	52	59
Sweden	35	43	50	59

Source: United Nations Statistical Office, *World Trade Annual*, 1966-1968, Vol. III; 1969, Vol. IV, Walker, New York.



The same pattern is being repeated in other European countries, though the volumes are lower.

Table 6 shows that, of footwear exports, leather footwear is by far the most valuable.

TABLE 6. FOOTWEAR EXPORTS BY TYPE

	<i>Value of exports (million dollars)</i>		<i>Increase in value (per cent)</i>
	1966	1968	1966-1968
Leather footwear	582.6	913.2	57
Leggings, boots etc.	0.6	0.8	33
Rubber or plastic footwear	82.6	142.2	73
Unspecified footwear	1.1	2.9	164
Wood- or cork-soled footwear	1.5	2.9	93
Other	17.5	9.7	Negative
<b>Total</b>	<b>686.0</b>	<b>1,071.6</b>	<b>56</b>

*Source:* United Nations Statistical Office *World Trade Annual*, 1966, 1968, Vol. III, Walker, New York.

Developing countries have not yet captured any significant share of the large market for leather footwear, although they would appear to be in a good position to do so if they wished. Here again it should be remembered that the footwear industries in developing countries fall into two general categories: long-established, small, artisan workshops with varying degrees of mechanization; and the large, recently established, highly mechanized units. These two categories and their possibilities for entering the international footwear markets are discussed below.

#### *Artisan workshops*

Artisan workshops have not been heavily developed, as most of these countries have concentrated on supplying cheap, mass-produced shoes for the vast markets that growing living standards have created. Artisan workshops are ideal for producing traditional, classical welted leather shoes, with both leather uppers and soles. This is perhaps the best type of shoe produced: it is comfortable, has a long life, and the soles and heels may be repaired numerous times. However, these workshops are suffering serious competition from the recently developed mass-production type of establishment, which produces a cheaper shoe of plastic and synthetic material with a minimum of leather.

The average consumer is very price-conscious. When given the choice of a mass-produced shoe or an artisan-produced shoe which, though of far superior quality, costs twice the price, he will choose the former. Though the difference in price is partly due to the cost of leather and other superior grades of material used in

artisan production, it is mainly attributable to higher labour costs. The artisan workshop produces from 1½ to 4 pairs of shoes per person per day (depending on the degree of mechanization) but the industrialized plant can produce 12 to 16 pairs of shoes per person per day (leather or imitation leather). As a result, the output of the artisan producer in many countries is stagnating and even decreasing. However, the artisan producer who is capable of turning out a well-made leather shoe is in an ideal position to make the best use of a country's natural raw materials and even to undertake the export of shoes suitable for the world markets.

In today's international markets, a shoe with a leather upper and sole fetches the best price; and it is just this type of shoe that the semi-mechanized, artisan workshop can produce so well. The price obtained is usually less than \$4 a pair, and many potential manufacturers may be deterred by such a low return for a complete leather shoe. However, if they can be convinced of the advantages of bulk production (relative to their size) and if Governments can provide some assistance, there should be little difficulty in producing for export. Few individual producers are large enough to seek or complete any orders obtained. It is essential, therefore, to form associations or co-operatives. These co-operatives, which could best be organized by the chambers of commerce of the countries concerned, could then seek contacts with the bulk-buying organizations in the United States or Europe or with shoe importers and wholesalers in other areas. The main problem would be to ensure uniformity of production if an order were shared out among several artisans; but this could be overcome with technical assistance from international bodies. Government "bridging loans" to cover the period from manufacture until payment is received from the importing country—probably the most difficult period—might also be needed.

The main advantages of this type of production are that it is labour intensive and, perhaps most important, assuming there is an established leather industry, all its raw materials can be produced domestically, so that virtually no foreign currency is required. This is completely different from the economics of operating mass-production factories, where large volumes of synthetics, rubber and other materials often have to be imported before production can start.

#### *Large-scale production units*

The large, highly mechanized units that have been established in many developing countries recently—often in association with producers in other countries—have fulfilled their original function of manufacturing shoes to supply the country's internal needs. They have generally aimed at producing relatively cheap shoes using synthetic materials for uppers and soles. Even where leather uppers have been used, the direct-moulded or similar processes have been employed. However, these units suffer from several disadvantages. Above all, they are not able to operate without importing basic materials. Very few developing countries produce polyvinyl chloride (PVC), vinyl, rubber or rubber substitutes. While their products may be satisfactory for domestic use, they are usually not suitable as articles for export. Competition in the field of synthetic and plastic shoes is keen. Even if a developing country wished to export this type of article its profit and foreign currency margin would be very small after allowing for the costs of importing the raw materials.

When originally established, these mass-production factories were capable of producing leather-uppered and leather-soled shoes, and it might be assumed that they would be in a position to enter the international market for shoes. However, as

complete leather shoes did not form a large volume of their sales, many factories closed down their leather sections and are thus not able to enter this lucrative field today. The remaining units, which have the capacity to produce classical, leather-uppered, leather-soled shoes could easily enter the market. They are usually large enough to be self-sufficient with regard to market research and sales. However, when they are associated with an international group, the over-all policy of the group may be to discourage a particular country from entering the export market.

### *Shoes for export*

Shoes forming the bulk of exports in world markets may be split into two categories: "classical" and "fashion". Some of the centrally planned economies of Eastern Europe have begun exporting the classical type; the prime exporter of fashion shoes is Italy. Spain and certain South American countries are trying to follow the lead of the Italian industry in this field.

Italy has the best growth record in the export field; exports have increased at a phenomenal rate in recent years. The general pattern of production is based on the semi-mechanized artisan workshop. Small workshops have the advantage of great flexibility, since they do not need to have the long production runs of the large, fully mechanized units. With respect to fashion shoes, size of batch is relatively small (as compared with the classical shoe).

Whether to enter the "classical" or "fashion" markets is a difficult decision to make. The differences between the two types from the viewpoint of production and sales must be studied. Classical shoes can be produced in bulk, and they are not subject to rapid changes in design. However, competition in this field is extremely high and prices are very low. For example, Poland exported leather-uppered shoes to the United Kingdom at an average price of \$2.08 a pair in 1969. As such a figure barely covers the cost of the leathers used, very few developing countries would find exports of this type of shoe financially rewarding.

The fashion shoes that are being produced so abundantly by Italy are marketed at appreciably higher figures. For example, exports of men's shoes from Italy to the United Kingdom averaged \$3.82 a pair in 1969. Obviously, these prices are much more attractive. Of course, fashion shoes require prompt entry into the market, and therefore need the close liaison between manufacturer and importer discussed earlier, but the possible rewards would appear to more than justify the extra effort needed to enter this market. Also, the prices obtainable for fashion shoes make it economically feasible to export these articles by air freight (at special preferential rates), and thus the problem of lengthy delivery time can be partially overcome.

### **Leather goods**

International trade in leather articles has increased rapidly in the past decade. For example, United States imports in this field increased by 135 per cent between 1964 and 1968. German (Federal Republic) and Austrian imports in the same period increased by 70 per cent and 113 per cent, respectively. There is every indication that this trend will continue. The impetus, as mentioned before, has been

provided by the high cost of labour in many of the importing countries. Genuine leather articles are usually manufactured in artisan workshops, and the labour input is high. Therefore, countries having relatively cheap labour resources may take advantage of this situation. In developed countries, labour costs sometimes amount to 30 per cent of the ex-factory price of leather goods; in developing countries this figure may well be kept down to 10 or 15 per cent. Increased mechanization can lower labour costs, but in general leather articles do not lend themselves to mass production. The largest potential markets for leather goods are in Europe and the United States.

The channels through which these imports are distributed vary from country to country. In the United States and one or two European countries, most purchasing is done by bulk-buying agencies representing retail chains, co-operatives, or syndicates; in Europe it is handled through smaller importers and agents. These differences in purchasing systems are of some interest to potential exporters; bulk-buying agencies usually arrange for their representatives to tour the manufacturing areas, whereas the smaller importers and agents generally conduct their business by post or cable.

In most countries statistics for leather goods include a large volume of non-leather articles; genuine leather goods represent a much smaller figure. For example, the value of total imports of leather goods to the United States in 1968 was \$94 million, of which genuine leather goods accounted for only \$27 million.

Leather products suitable for exporting can be divided into three general categories: traditional; classical; and fashion.

#### *Traditional products*

Most countries with old-established leather industries have evolved traditional ways of working with the material. This is especially true of North Africa and Asia, where hand-tooling and colouring of the leather surface is generally practised. Concentration on the over-all grain patterning and tooling of the finished product is often such that little account is taken of the quality of the leather, fineness and evenness of stitching, and general design. Countries that have tried to export this type of hand-tooled article have had very limited success. Tourists and visitors are keen to buy such articles as mementoes of their trip abroad, but otherwise, there is only a limited market for this type of article.

The main advantages of traditional products are that, as they are not fashion goods, no urgent changes are likely to be called for; sales may be arranged over a long period; and normal postal exchange is usually sufficient to obtain preliminary orders. Also, national exhibitions in overseas countries guarantee some markets, however limited.

Better processing of certain skins is essential. For example, handbags of crocodile, snakeskin and hair-on calfskin are produced and sold in many countries for from \$4 to \$5, whereas the same raw material, if properly cured, processed, and manufactured into a well-designed and finished article could yield \$40 or \$50.

Greater technical assistance to the rural tanner and leather goods craftsman is needed if this great wastage of resources is to be avoided. Now that plastic and synthetic materials are competing directly with genuine leather, it is essential that all leather goods sold to the consuming public be of good quality in order to keep the public image of leather at the high level it so richly deserves.

*Classical products*

Classical products include: attaché and brief cases; shopping bags; wallets; purses; jewel cases; and the handbag, which is still one of the most popular items of international trade. At first glance this market seems the one that potential exporters should aim for: demand is high and importers are willing to pay up to \$10 for a well-finished cowhide handbag. However, for several reasons, sales in this field in the past have been limited from developing countries.

When a woman pays \$20 for a leather handbag of classical design she expects that it will give good service for perhaps five years. She also expects the fittings (e.g. clasps and handles) to be of the highest quality and the finish of the leather to be durable and to have an aesthetic appeal. Industry in many developing countries is unable to meet all these requirements for, even though there may be no problem with the design (which can be copied from accepted models), there remain the problems of obtaining leather supplies of adequate quality and finish, and of finding workers with the necessary skills. This latter is a most important item and one that developing countries do not appreciate. The evenness of stitching and edge-turning seldom comes up to the expectation of the importer; likewise the quality of the fittings is usually below the expected standards. It would appear, therefore, that exports of classical goods are best tackled by those countries that already have some leather goods industries and have therefore some chance of producing to the high standards the international market requires.

Countries that have no leather goods industries but wish to enter this field can, given intensive training schemes over a three- to five-year period, reach the required standards. The problems involved should not be minimized, however. Only wholehearted effort on the part of the Government or private financiers can result in success. It is not merely a question of installing a few machines but of all-round training. This type of operation is best conducted in association with a manufacturer or importer in an importing country who would be able to advise on styles and standard of workmanship and would seek outlets for the goods.

Free imports of accessories to be used on goods for subsequent export should be allowed to manufacturers, so that they may produce goods of the quality the world market expects. The advantage of trade in the classical-goods sector is that, as fashions do not change, time is not a problem and business may be arranged over long distances by correspondence. It may be necessary to consider seriously in-factory training of workers to meet the standards required for this type of product and to ensure uniform production. The amalgamation or co-operation of various firms to allow them to undertake large orders is also an important question.

In general, the standard of material and workmanship required for classical goods is very high, and there is keen competition from established industries. In return for the high prices paid for these goods, importers expect great uniformity of product. There may well be a lower level of acceptability if prices are low enough, but with these goods price is of minor importance. Whether the customer buys a handbag at \$16 or \$20, he still expects good workmanship. If a developed country produces a given bag for \$10, the bag will (allowing for wholesale and retail markups) retail at \$20. A developing country may succeed in producing a similar article for \$7 (saving \$1 on material and \$2 on labour); but, when duty is paid and importers' expenses taken care of, the article may well retail at \$16 or \$17. At such a minor discount buyers would still expect top-grade products.

*Fashion products*

Business is booming today in the sector of the industry producing fashion articles. The problem here for developing countries is basically one of liaison. Products may change three or four times a year in style and colour, and the importer expects his order to be delivered promptly so that he can sell his goods while they are still fashionable. However, it may be worth trying to overcome this problem, as fashion products do not have to reach such high technical standards as the classical goods discussed previously. The essential thing is that the article should have an attractive appearance. Durability is certainly far less important than appearance, as very few fashion-conscious people study such points as the seams and clasps, knowing very well that if the product lasts for three or four months it will have served its purpose.

With modern postal and communication services there is little problem in getting samples from the potential importer to the manufacturer rapidly. The question that many developing countries must ask themselves is whether the local industry can supply leather of the right quality in the right colour and finish for a particular article. The answer is frequently "no", as the fashion colours are seldom produced in developing countries until many months after their entry into the established world markets. However, owing to recent developments in the tanning industry, finishing is improving rapidly, and fashion colours may soon be readily available when required.

As North America and Western Europe constitute the centre of leather goods manufacture as well as the largest markets available for potential exporters, close association with importing groups in these areas is essential for any production unit wishing to enter the export market. Such close co-operation would be necessary to ensure that manufacturers receive samples and advance notice of fashion changes in time for the product to be manufactured and shipped to these markets.

Many leather goods manufacturers in Europe face extreme competition from the Mediterranean countries, which have lower wage rates. Some manufacturers would undoubtedly like to combine with manufacturing groups in developing countries that would be willing to manufacture to exact specifications. The manufacturer in the European country would save on labour costs; the manufacturer in the developing country would have the advantage of having ready-made patterns and styles to suit the current fashions and the sales organization of the European manufacturer at his disposal. This might seem a poor way to enter the market, as obviously the manufacturer in the developing country would not get a large share of the profits. He would be essentially a supplier of cheaper labour and material. But if he could establish himself and his products on this basis it might be possible, after a few years of operation, to branch out and work independently. His standards of skill would have risen to acceptable levels, and he would have seen what markets he might enter, whom to contact and what prices he might obtain for his products.

A closer look at the United States market may be justified at this point, as it is the largest market in the world. The value of imports in the general category of leather goods in 1964 amounted to \$40.2 million; it rose to \$94.7 million in 1968, an increase of some 135 per cent; and it is expected that figures for 1969, when published, will be over \$100 million. The potential market is even greater, for the share of imports, compared with the total consumption in the United States, is still small, even though it is increasing, as table 7 shows.

TABLE 7. SHARE OF IMPORTS IN TOTAL CONSUMPTION OF LEATHER GOODS IN THE UNITED STATES  
(Per cent)

Category	1963	1967
Luggage	4.7	3.5
Handbags and purses	5.1	13.1
Small leather articles	1.4	3.8
Total	4.1	7.6

Source: UNCTAD/GATT International Trade Centre (1969) *The Market for Leather Goods in North America and Selected Western European Countries*, Geneva.

Genuine leather goods amounted to only about 29 per cent of total imports in the leather goods category. Of the \$27.4 million worth of imports of genuine leather goods in 1968, leather handbags accounted for by far the largest share \$17.3 million; imports of billfolds, letter cases and other flat goods accounted for \$6.2 million; luggage etc., \$3.2 million; and cases for musical instruments, pipes and cigars, \$0.7 million. Indications are that the market for genuine leather handbags, billfolds etc. will continue to expand.

Other markets—mainly in Europe (see appendix 3)—have generally the same requirements as those in the United States. If there is any basic difference it may be that the European market is more quality- and style-conscious than its American counterpart. Most countries import two classes of product: a high-quality, highly priced article that may be beyond the capacity of producers in developing countries; and a more general, mass-produced bulk-sales article with appreciably lower prices and standards which producers in developing countries can more easily manufacture. In Europe, the percentage of goods in the high-quality class is much greater than in the United States, and even the mass-produced article is expected to be of good quality.

Importers expect a producer to offer a full range of goods in a number of styles illustrated in brochures in colour. It is very difficult for a prospective exporter to meet these expectations, as a full range of goods in various styles can usually be produced or offered only when a consortium of producers (or co-operative) has been formed, and sales literature of good quality is expensive to produce.

The following excerpt from *The Market for Leather Goods* seems to sum up the situation admirably:

"The bulk of the leather goods business consists of products governed by fashion or consumer preference. There is a market for exotic products, but it is very limited. Foreign manufacturers will not be successful in offering leather goods produced without knowledge of market trends, consumer preferences etc. in the United States. If acceptable products can be offered by new suppliers from developing countries, there will be opportunities for penetrating the market. Imports of leather goods into the United States have increased very rapidly at

the expense of the domestic industry, which is faced with high wage costs and rising prices of raw materials, particularly of leather. The degree of dependence on imported leather goods is still low the average for 1967 was 7.6 per cent—but it may be assumed that imports of leather goods will continue to grow in the short term.

“The leather goods market is definitely a buyer’s market, with many suppliers in competition with one another, and imports of these goods, particularly those of genuine leather, come mainly from Western European countries with long standing and close relations with the United States. Imports from developing countries, with a few exceptions, are marginal. Handbags and similar products are the main items of import, accounting for more than 60 per cent of the total. However, this seems to be the most difficult market for developing countries, since fashion (design, colour, size, material) is one of the most important factors of marketing. Fashion is created by Western European manufacturers, notably Italian and French, as well as by United States manufacturers. Manufacturers in developing countries remote from the fashion centres are obviously handicapped, unless an extremely good relationship is established with business concerns in the United States which can give them market information, instructions and advice as quickly as possible.”<sup>8</sup>

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<sup>8</sup>UNCTAD/GATT International Trade Centre (1969) *The Market for Leather Goods in North America and Selected Western European Countries*, Geneva, p.80.



### **III. EXPORT PROMOTION AND MEASURES FOR DEALING WITH EXPORT PROBLEMS**

The problems facing potential exporters vary widely from country to country. This chapter covers some of the problems in various sectors of the leather industry that are common to most exporting countries and suggests ways in which they may be overcome.

#### **Semi-processed leathers**

The export of semi-processed leathers requires first of all economically produced, well-tanned leather. Various international and bilateral projects have been concerned with the leather production, and tanneries in many developing countries have made technical progress and have improved production. The main problem is to decide in what form the leather should be exported.

It would appear that the economies of most countries would benefit if, instead of pickle, wet-blue, one or other of the dried tannages were employed, e.g. rough-tanned, crust vegetable-tanned, or crusted-chrome or chrome-retanned leathers ready for final finishing. Only these dry-tanned leathers appear to give significant increases in "added value" reflected as foreign currency. To further the export of these articles, Governments could introduce differential export taxes. Many countries that impose taxes on raw materials often impose no taxes on the wet-blue leather. This measure, when allowance is made for the very poor return of foreign currency, would not appear justified. A more sensible arrangement would be to charge 50 per cent of the export tax on wet-blue, no tax on dry-tanned and give a rebate on finished leather. (This, however, may conflict with certain international trade agreements.)

Many countries need to re-examine their import duties on chemicals and machinery. When tanneries have to pay duties on these items their efforts to export at realistic prices are hampered. Governments should also consider promptly compensating producers for import duties already paid on such materials. Certain countries have already adopted such measures.

Government trade missions obviously have a large part to play in assisting exports and finding markets for semi-tanned leathers, but when the leather is in a near-finished state it is often difficult to pool products and difficult, therefore, to find outlets for more than one tannery. Hence, there is a strong case for direct

contact between the tanner in the developing country and the tanner/finisher in the importing country. In this way the importer in the developed country can give technical advice to the producer. This system has proved itself where it has been followed. After the initial problems of price and grade regularity have been overcome, confidence is established and regular business flows smoothly. Small tanners, who would obviously not be able to arrange such direct contacts with overseas tanners and merchants, should establish some form of co-operative for this purpose.

The installation of finishing plants by developing countries in the developed countries is also recommended as a method of exporting semi-processed leathers and ensuring full value for the materials exported. It has the added advantage that the producer always has access to first-hand market information. The complication with this system is that a large amount of floating funds is necessary to make it work. Duty, freight charges etc. would have to be paid on the material imported into the market country, and no returns would be received until the goods were finished and sold; the tanner would have to be paid (at least in part) immediately when the goods were shipped; and funds would be needed to cover the stock of unfinished leathers held by the finishing plant. Very few tanners in developing countries are in a position to finance and run such an organization, even though, theoretically, it would give them the best possible chance to export their products. Government organizations are not necessarily the most suitable for operating such a scheme; co-operative purchase of a finishing plant could well yield more favourable financial results, provided the capital backing were obtained. This has been tried in both Europe and the United States. The results were good when leather was in short supply; but when business slumped, the finishing plant suffered heavily.

Whatever type of export is carried out, a governmental "export credit guarantee scheme", which would pay the tanner when the goods are shipped, is to be strongly recommended. Importers generally are wary of issuing irrevocable letters of credit until the reliability of the tanner is well established. Initially, the tanner is often given a revocable letter of credit, which he must manipulate as best he can. It is then that government guarantees can prove most useful in getting exports moving.

In many countries export documentation is far too complex, and this deters small producers or forces them to use agents, which they can barely afford.

It must be admitted that the biggest deterrent to increased exports of semi-processed leather from developing countries in the past has been irregularity of supplies. This has made tanners and importers in the developed countries cautious in their dealings with producers in developing countries. They are very slow to enter new contractual arrangements. The production of wet-blue leathers has not eased the situation: many tanners/importers in developed countries complain of irregularity in wet-blue production with respect to percentage of chrome, type of chrome, defects in the hides, or, even more important, inconsistent measuring in this wet state. (These problems do not arise when a tannery in a developing country is a direct associate of a tannery or importer in the importing country.) There are three ways of solving this problem:

- (a) Governments or industries should set up standards institutes that could test and measure products before they are exported. This would be costly and unwieldy if attempted on all batches, but random checks would prove useful.

- (b) By intensifying the technical training of the staff employed in the tanneries, more consistent and reliable tanning, grading and measuring would be obtained. International agencies are assisting the leather industry in many countries in the field of training. However, the number of technicians still falls far short of requirements.
- (c) By judicious use of export levies tanners could be steered away from wet-blue to a more economic process that may present fewer technical problems.

### Finished leathers

Owing to the nature of the leather trade and variable fashion requirements, finished leathers are not easily exported from developing countries. Standard black and brown leathers may be exported, but these generally meet great competition from many other countries trying to export similar articles. The more valuable fashion leathers are not easily produced in developing countries. This is especially true when the finish has to produce a certain effect, such as the "wet look" that became popular recently. Pigment manufacturers and suppliers in most of the developing countries were at first unable to duplicate this type of leather, and it was six to eight months before the tanneries were in a position to produce it by which time prices had dropped and the market demand was being satisfied by established tanneries. Governments could help to overcome this problem by adopting a more liberal attitude to the importation of chemicals, especially when they are needed to finish leathers that will later be exported. Many Governments ban imports of finishing materials on the ground that their indigenous production is adequate. However, the industries that supply the finishing materials in developing countries often lag behind their more advanced counterparts elsewhere. Some Governments allow such imports when the necessity is proved, but this procedure is usually too lengthy to allow the tanner to obtain his materials in time to meet current demand.

### Leather footwear and leather goods

The establishment of warehouses and showrooms in markets abroad could go a long way towards promoting exports of leather footwear and leather goods. This could be done either on a governmental or a co-operative basis. The system has many advantages: an interested buyer can receive his stocks immediately; he can see the quality of the workmanship being offered; he may accept a type of shoe on display subject to certain alterations. It is the long delay between ordering the shoes and receiving the goods from developing countries that deters many potential importers. They are also wary of receiving one pair of shoes as a sample, on the basis of which they are expected to order thousands of pairs. When they can see bulk merchandise in a warehouse some of their doubts may be removed.

Whether or not an overseas warehouse or showroom is established, artisan manufacturers of footwear and leather goods should form loose co-operatives so that they can accept large orders, which may be shared out.

The Government should assist small manufacturers to improve their machinery by providing loans and grants. In many countries this assistance is available only to the larger companies. Ways should be found to help the small manufacturer achieve a moderate standard of mechanization. At least he should have sewing machines of good quality, and perhaps even lasting machines, if he is to produce shoes of export quality. Governments should realise that this type of producer may ensure the best utilization of the country's leather resources, as he is able to produce a complete leather shoe or a "handmade genuine leather bag" of export standard, using virtually no imported materials.

## IV. CONCLUSIONS

Vast markets exist in Europe, the United States and elsewhere for leathers in various stages of processing as well as leather products. It would appear that there are certain fields that must be seriously tackled by the industries in the developing countries if they wish to penetrate the markets on a large scale.

Potential exporters should have a better understanding of the type, quality and design of products required in foreign markets. To improve quality, more technicians of high calibre are required in tanneries and factories, and better use must be made of national research institutes. With respect to style of finished products, the manufacturer must make a decision according to his technical capabilities; he may enter the "classical" market, which, though regularity and high levels of workmanship are called for, offers continuity and non-changing styles; his other choice is to enter the "fashion" field, where high standards of workmanship are not absolutely necessary, high prices are paid, but where the styles change rapidly and quick delivery of orders is essential. Until the manufacturer produces the correct article for the market, no amount of export-promotion assistance can aid him in obtaining orders.

Trade channels are generally the biggest hurdle that potential manufacturers must overcome. Until they have established good working arrangements with importers and agents in markets abroad, they will not be able to sell their goods in any volume. Such contacts are necessary to keep the manufacturer up to date on the requirements of a particular market as well as to help him make sales. To overcome this lack of contact, which is often due to the small size of the manufacturer, it is suggested that manufacturers organize co-operatives or consortiums. These co-operatives, which would be able to accept large orders, should have enough resources to finance "market travel" by one of their members on behalf of all. Increased use of government trade missions can also assist in this preliminary stage.

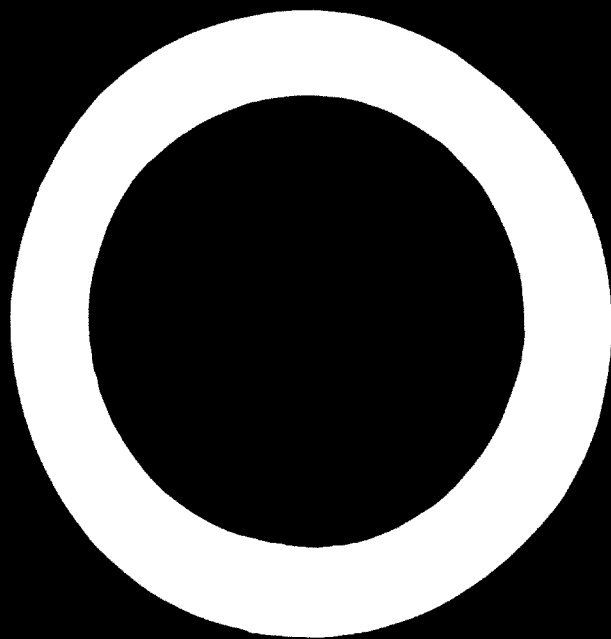
Groups of tanners from developing countries could set up finishing plants in the importing countries. The establishment of warehouses or showrooms in markets abroad might overcome many of the hindrances to exports of finished leather products. Although such schemes require large capital outlays, they should offer exporters the best chance of success in penetrating new markets yielding high volumes of trade.

The Government can assist exporters most effectively by easing export documentation, removing or refunding import duties paid on imported chemicals and accessories (when the product is subsequently exported), and assisting small or medium-size manufacturers to obtain capital grants for modernization of plant. In

some cases the Government should reappraise its export levies on raw hides and skins in order to encourage the export of processed products having higher value.

International bodies should assist further in the training of technologists and technicians both at the institute and factory-floor level. Studies of the problems of each country in respect of export in the fields discussed should be undertaken and new efforts made to disseminate the results to manufacturers.





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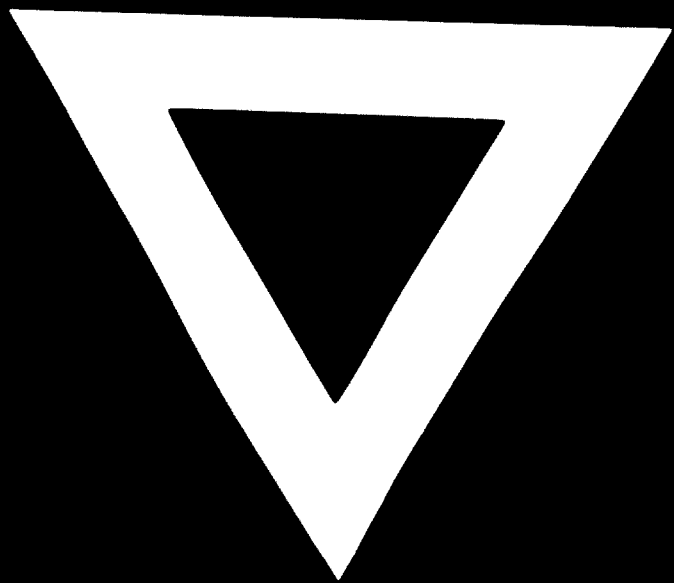
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