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Second Leather and Leather Products
Industry Panel Meeting

Vienna, 5-7 February 1979

FOR DISCUSSION

ISSUES IDENTIFIED BY THE SECRETARIAT FOR A SECOND CONSULTATION MEETING ON LEATHER AND LEATHER PRODUCTS INDUSTRY*

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Introduction

1. On the basis of the recommendations made by the First Session of the Leather Industry Panel (5-7 January 1978) the Secretariat has identified four issues for a Second Consultation Meeting which the Panel is invited to discuss and recommend.

Issue 1. The prospects for increasing the world-wide availability and quality of raw hides and skins supply given the major constraints affecting the hides and skins economy.

Issue 2. The prospects and problems of production of downstream leather products in developing countries and the present international division of labour.

Issue 3. The prospects for liberalization of international trade in raw hides and skins and leather and leather products and the issues regarding tariffs and non-tariff barriers to trade.

Issue 4. A proposal for a jointly co-ordinated and long-term technical assistance programme in developing countries by UNIDO, FAO and other organized bodies to improve the present system of available statistics and intelligence with a view to developing comparable international standards in the sector.

2. To guide the discussion the Secretariat has suggested the points under each issue for discussion in this paper.

3. The Leather Industry Panel is invited to consider and advise on: (a) these four issues suggested by the Secretariat and (b) other issues facing the leather and leather products industry which members of the Panel may wish to suggest themselves.

4. The Leather Industry Panel should further consider and advise the Secretariat and in particular:

(a) Recommend the priority issues that are considered suitable for detailed discussion at a Second Consultation Meeting.

(b) Outline how these issues might be presented to the Second Consultation by the Secretariat.

(c) Summarize the discussion of the other issues discussed during the Pannel Meeting.

Issue 1. The prospects for increasing the world-wide availability and quality of raw hides and skins supply given the major constraints affecting the hides and skins economy.

5. The issues relating to raw hides and skins availability and the quality of its supply are twofold:

(a) the improvement of the hides and skins statistics and intelligence, and

(b) the alleviation of the economic problems of the hides and skins market.

6. These two aspects of the hides and skins economy constitute the main constraints to the availability and quality of raw material supply and therefore require concerted international attention.

7. The first FAO *ad hoc* Government Consultation on Hides and Skins convened in Rome on 17-20 October 1978, discussed and recommended solutions to the above issues and related problems.1/ The Rome meeting recommended that intensified efforts were required to fill the gaps in FAO's existing statistical compendium on production, trade and consumption of hides, skins and products derived from them. It also recommended that the accuracy of the current FAO data bank should be further improved with a view to raising statistics of developing countries to the same standard and degree of accuracy of those of developed countries.

Statistics and Intelligence

8. In order to facilitate comparability between the raw material and processed products sector, nationally as well as internationally, the FAO Consultation identified and recommended four basic steps:

(a) FAO should in future select a common denominator for its statistical compendium which would ideally be surface area in order to express data on raw hides and skins as well as processed products. Should this prove too difficult, updating data in their current denomination and unit should be continued. It was recognised that whether the FAO Secretariat would succeed in selecting surface area as a common denominator would largely depend on the extent of progress made under the following points.

1/ FAO, CCP: HS 78/Rep.1 and 2, 20 October 1978

(b) The Secretariat should try to develop countrywise the conversion factors for raw hides and skins, rough-tanned and finished leather required for expressing all data in one unit. Such an exercise would also considerably assist in undertaking the following next step.

(c) In order to further ease problems of comparability the Secretariat should develop a standardized reporting format which would permit international comparisons between the raw hides and skins and processing sectors of individual countries. Such a format should then be sent to governments, international organizations and trade and industry associations which would be requested to provide the numerical data for the format. It was considered essential that in formulating the standardized format, care should be taken to avoid over-sophistication and to keep it to proportions manageable by the recipients.

(d) In order to have a base for an eventual adjustment of international trade classifications and nomenclature, it was considered necessary that initial thought should be given to the compatibility of international trade classifications and nomenclature currently in use with the change in composition and specifications of commercial transactions which have taken place over the years.

Economic problems and possible solutions

9. A major factor affecting the availability and quality of raw hides and skins supply is the rate of recovery of raw material after slaughter particularly in many developing countries. The lack of development of an infrastructure for the handling and marketing of animal by-products in many developing countries has resulted in varying degrees of inadequacy in the recovery, curing, transportation and marketing of hides and skins. As one of the means of alleviating the supply and price problems of the leather industry world-wide would be to increase the volume of the supply available, some concerted and sustained efforts in the field of eliminating wastage should be implemented. In this connexion, the Panel may also consider whether it needs the expertise of the meat industry to be represented on the Panel in view of the fact that the leather industry is a by-product of the meat industry.

10. It must, however, be recognized that in many developing countries the development of organized slaughtering in well-equipped abattoirs will be a long process. With many countries continuing with an agricultural sector

largely comprised of small farmers using cattle or buffaloes for draft purposes and keeping a few goats and pigs almost on a domestic basis, the prevalence of backyard slaughter will continue. Development of a larger market for meat will ensue from greater degrees of industrialization and the growth of urban society. This is happening in many developing countries but it is a gradual process. During this period there should, nevertheless, be sustained efforts made to impress upon both organized and "backyard" slaughterers the potential higher value of well flayed and cured hides and skins.

11. The demand for hides and skins in recent times has maintained a firm raw material market, especially in countries where the commodity can be traded freely. The higher price levels could be sufficiently attractive to pork producers to consider removing skins from pigs for offer to the market. Although long standing as a traditional part of the meat in many countries, efforts could be made to assess all the practicable possibilities of obtaining at least a proportion of these skins for the leather industry.

12. Prohibitions on export of raw hides and skins and the imposition of import duties on raw hides and skins by developing countries have had certain harmful effects on the market. By restricting the use of raw material to local tanners only, a limitation has been introduced to the effect that the material may not achieve its optimum value as leather or finished goods. Recognition that the properties and qualities of hides and skins differ considerably throughout the world by reason of differences in breed and environment leads to the conclusion that to restrict tanners in countries where there are no limitations on import and export of raw material to a narrower variety of raw stock and to restrict tanners in countries where prohibitions of raw material import and export have been imposed, to the use of only their own indigenous raw material limits not only the variety of leathers that can be produced but also the value that can be added.

13. In a world situation of increasing raw material shortage the only means tanners have of remaining profitable is to make leathers where quality ensures a higher intrinsic value. To produce large quantities of finished leathers and goods from raw material which is well below the world price level leads to the introduction of unnecessarily cheap goods into a market which is endeavouring to achieve a deservedly high return on goods made from a scarce commodity.

14. Lack of technical ability and market knowledge has contributed to a poorer than anticipated return to semi-processed and finished leather in these circumstances of artificial market control. World raw material prices have risen partly as a result of the growing extent of protection given to hides and skins in the developing countries. It could have been beneficial to many developing countries to have been able to trade in raw material.

15. Growth in tanning capacity and the constraint to utilize it to the fullest extent has so far precluded such policy reversals. In the interests of the industry as a whole efforts should therefore be made to upgrade the quality of leather produced in tanneries in the developing countries so that it can be offered on world markets without reliance on subsidies as a means of maintaining low price as its market entrée. Invariably persistence with protected markets for raw material can only promote demands by tanners in the developed countries for protection against the effects of the volume of cheap finished leather coming into their own markets.

Regional leather centres

16. In this connexion, one of the recommendations of the First Consultation Meeting, Innsbruck 1977, for the establishment of regional industrial development and training institutes, is of particular relevance to this issue. One of the major functions of these centres could be the on-going surveillance of slaughtering, hide and skin recovery and curing practices, advice on improvements, provisions of appropriate on-the-job training and, depending on the existence of regulations for flay, hide trim, curing and presentation to market, the monitoring of such regulations. Where no such standards exist, staff at the centres could use appropriate channels to governments and the leather industry for the establishment of comparable international standards.

17. The regional centres could also be organized to collect data according to the standardized formats recommended by the recent FAO consultation, on livestock levels, slaughtering, hides and skins production, etc. etc. right through to production and trade in finished goods for all the countries within each region. Regular supply of information through responsible and able staff at each centre would not only help to narrow the

gaps in the information which are currently apparent, but it would also enhance the importance of the centres beyond their role of industrial training. The establishment of a regular data service from each centre would be more efficient than the intermittent investigations into the condition of reported statistics throughout the world. Each centre would be able to establish its pattern of monitoring raw material availabilities and trade flows in the downstream products.

18. To realize the vital function that the regional centres could have, suitably qualified personnel could monitor not only production and trade statistics across the sector, but such valuable industrial parameters as:

(a) utilization of installed capacity in tanning and finished leather goods production;

(b) beneficial or detrimental effects of the various national tax and trade regulations on the industries;

(c) growth or recession of the industry in terms of volume of output and number of companies involved;

19. In addition to provision of technical training, the centres could advise on:

(a) quality of semi-processed and finished leather and finished goods;

(b) market orientation of finished leather and finished goods;

(c) adherence to certain quality parameters;

(d) chemical and mechanical processing techniques, so that manufacturers could avoid being prey to suppliers;

(e) by-product utilization and effluent treatment and disposal;

(f) development of indigenous chemical supplies;

(g) trade and market development both domestically and for export ranging from meat to finished goods;

(h) advise governments on appropriate measures to help the development of the industry in areas such as improvements in livestock agricultural systems, organized slaughtering, hide and skin standard flay and pattern regulations, reductions of import duties on necessary chemicals and machines and on the problems and prospects of the market for finished leather and leather goods so that trade policies could be adapted to the needs of the industry;

(i) such personnel could, for example, also advise the appropriate UN Agencies on the factors which relate to specific projects for industrial development. This would simplify preparatory work for projects and would avoid duplication of effort;

(j) the maintenance of regional data banks by the centres would remove the necessity for periodic intensive surveys, and such information would be constantly up-dated and improved in scope;

(k) armed with such thorough information services, the centres would facilitate the rapid mobilization of small teams of experts to assess, on request, the feasibility of specific projects, thus reducing the lengthy lead time for such operations which obtain at present.

20. The Panel is requested to consider and advise on the above mentioned issues and other alternative solutions to increase the present availability and quality of raw hides and skins supply and to mitigate the problems of statistics and intelligence.

Issue 2. The prospects and problems of production of downstream leather products in developing countries and the present international division of labour.

21. The international division of labour in the downstream non-footwear leather products industry is difficult to assess due to lack of data. According to FAO statistics, in 1975 roughly 28% of leather shoes were manufactured in developing countries and 72% in developed countries. During the 14-year period, 1961 to 1975, the relative share of the global leather shoes production was distributed as follows:

World production of leather shoes 1961-1975 (*)
(millions of pairs)

	1961 (percentage)	1975 (percentage)	Average annual growth rate
Developing countries	354.1 (17)	819.5 (28)	6.2
Developed countries	1,757.4 (83)	2,127.4 (72)	1.4
World total	2,111.5	2,947.0	2

(*) Source: FAO

22. It is generally agreed by the trade that leather shoes account for roughly 60 per cent of global bovine leather consumption. Other leather products, for example travel goods and handbags, apparel and clothing accessories, harness-makers' goods, upholstery, sport goods etc. are difficult to assess individually since basic information on the global structure of the above leather products industries are not readily available. In the OECD region, for example, 66.6 per cent of leather consumption is for footwear and 33.4 per cent for other leather products.

23. At this point in time, it is considered unlikely that the developing countries will indefinitely continue to supply raw material to the developed countries and not enter the downstream side of the leather products industries.

24. During the past two decades developing countries have made important advances towards industrialization. Processing industries have been expanded and/or newly established to increase export earnings or to serve national or regional markets. In spite of such advances, the developing countries as a whole, however, remain net exporters of unprocessed commodities and net importers of manufactures. The sector hides, skins and leather is one

for which there is much scope for further processing in developing countries. Many developing countries are well endowed with raw materials and export a significant amount of hides and skins and semi-processed leather. In the context of the Lima target the past achievements of industrialization of developing countries as a whole are far from being adequate. One of the most practical means to achieve the target is to give locally available raw materials an ever-increasing degree of processing through various stages of manufacturing.

25. A comparison of the structure of exports of hides and skins, leather, and leather products of developing Africa with that of developing America reveals the potential of further processing in this sector for many developing countries.

26. It may be noted that whereas developing Africa in 1977 accounted for 37 per cent of the value of exports of hides and skins from all developing countries to 21 developed market economy countries, the corresponding proportions of developing Africa were less than 7 per cent for leather (SITC 611) and manufactures of leather (SITC 612), and 2 per cent or less for travel goods. handbags, etc (SITC 831), leather apparel and accessories (SITC 841.3), and leather footwear (SITC 851.02). These proportions for the developing African countries may be compared with those of the developing American countries as per cent of all developing countries in 1977: 16 per cent for hides and skins; 41 per cent or more for leather and manufactures of leather; 17 per cent or more for the remaining 3 product groups.

27. The variation in export structure of this sector according to the stage of processing is equally striking among developing regions. In the case of developing Africa, of the total exports of this sector to 21 DMEC valued at $ 160 million in 1977, exports of raw materials accounted for 54 per cent, semi-manufactures (SITC 611 and 612) accounted for 29 per cent, and manufactures (SITC 831, 841.3 and 851.02), only 17 per cent. This may be compared with export structure of this sector for the developing American countries where exports of raw materials accounted for less than 5 per cent, semi-manufactures, 39 per cent, and manufactures 56 per cent of their exports of this sector to 21 developed market economy countries valued at $ 775 million in 1977.

28. No doubt, over time, the export structure of the developing African countries for this sector moved in the direction of further processing: in 1970, raw materials accounted for 73 per cent of the total, semi-manufactures 22 per cent and only 5 per cent for manufactures. The pace of this improvement, however, is much slower than that achieved in developing America where in 1970 raw materials accounted for 39 per cent, semi-manufactures 44 per cent and manufactures only 16 per cent of the total exports of this sector to 21 developed market economy countries valued at $ 158 million (see table below):

<u>Export structure of hides, skins and leather sector of developing Africa and developing America, 1970 and 77</u>

		Raw materials (SITC 211)		Semi-manufactures (SITC 611;612)		Manufactures (SITC 831; 841.3;851.02)		Total	
		1970	1977	1970	1977	1970	1977	1970	1977
Developing Africa	Value ($million)	47	86	14	40	3	27	64	160
	Per cent	73	54	22	29	5	17	100	100
Developing America	Value ($ million)	62	37	70	303	26	435	158	775
	Per cent	39	5	44	39	16	56	100	100

<u>Source</u>: UNCTAD

29. The comparison of export structure of the sector between regions or that for a given region over time indicates a great potential for further processing in this sector. A detailed country study on the transformation of this section of Argentina, Brazil and Uruguay, will be very useful for many developing countries in advancing further processing of hides, skins and the leather sector.

The least developed countries' trade in hides and skins, leather and leather products

30. Imports of hides and skins from the least developed countries by the 21 DMEC amounted to $54 million in 1977, accounting for 23 per cent of imports of hides and skins imported by these countries from all developing countries. In the case of leather, the corresponding number for the least developed countries was 6.2 per cent. Similarly, 2 per cent for manufactures of leather; 0.5 per cent for travel goods and handbags; 0.7 per cent for leather clothing and accessories; and finally, 0.2 per cent of leather footwear imported from all developing countries by the 21 developed market economy countries in 1977. Table 1 presents the value of imports of the six product groups by the 21 DMEC from the 25 individual least developed countries as well as totals for the three developing regions.

31. The degree of processing in this sector for the least developed countries would have shown even less if not for Bangladesh and Haiti. Bangladesh was responsible for $28 million out of $37 million of exports of leather from this group. Haiti's exports of manufactures of leather, travel goods and handbags, leather clothing and accessories, and leather fortwear, valued at $3.3 million accounted for 80 per cent of the exports of the four product groups from all least developed countries to the 21 developed market economy countries.

32. The need for further processing in this sector is no where more pressing than in the least developed countries in view of the fact that for many of these countries hides and skins are one of the most important resources and industrialization in other manufacturing activities are still very much limited.

Table 1. **Imports of hides and skins, leather, leather products and footwear by 21 developed market economy countries (DMEC) from the least developed countries a/ (LDC), and from other developing regions in 1977**

(Value in million US dollars)

Products Exporting countries and regions	Hides and skins (SITC:211)	Leather (SITC:611)	Manufactures of leather (SITC:612)	Travel goods, handbags, etc. (SITC:831)	Leather apparel and accessories (SITC 841.3)	Leather footwear (SITC:851.02)
Afghanistan	3	1.6	0.0	1.0	0.2	0.2
Bangladesh	1.1	28	0.0	0.3	0.0	0.2
Benin	-	-	-	-	-	-
Bhutan	-	-	-	-	-	-
Burundi	0.7	0.0	-	0.0	0.0	-
Central African Emp.	0.5	-	-	-	-	-
Chad	1.4	-	-	0.0	-	-
Ethiopia	18	1.4	0.0	0.0	-	0.0
Gambia	0.0	-	-	0.0	-	-
Guinea	0.0	-	-	-	-	-
Haiti	0.8	0.1	2.1	0.8	4	1.4
Laos	-	-	-	-	-	0.0
Malawi	-	0	0.0	0	-	-
Maldives	-	0.0	-	-	-	-
Mali	0.5	0.0	-	0.0	-	0.0
Nepal	-	1.9	-	0.0	0	0.0
Niger	0.5	1.3	0.0	0.0	-	-
Rwanda	2.2	0.0	0	-	0	-
Samoa	0.0	-	-	0.0	0.0	-
Somalia	1.9	0.0	0.0	-	-	0.0
Sudan	12	0.3	-	0.0	-	0.0
Uganda	1.0	0	-	-	0.0	-
United Rep.of Tanzania	3	1.6	0.0	0.0	0	0
Upper Volta	2.3	0.4	-	0.0	-	0.0
Yemen, Arab Rep.	2.6	-	-	-	-	0.1
Total LDC a/	54	37	2.1	2.1	4	2.0
Developing Africa	86	40	7	9	5	13
Developing America	37	261	42	74	109	252
Developing Asia	110	275	43	352	401	488
All DC	235	596	103	441	543	836
LDC as % of all DC	23.0	6.2	2.0	0.5	0.7	0.2

Source: Special tabulations by the UNCTAD secretariat.

a/ Botswana, Lesotho and Dem. Yemen for which data are not available are not included.

33. However, the main aspects which have been identified for detailed consideration in the context of the downstream leather products industry and the present international division of labour are as follows:

(a) The First Consultation noted that there was over-capacity in the leather industry. It is considered important that the present pattern of capacity utilization in downstream leather products in major developed and developing countries be properly documented. It is also important that the types of capacities that are being planned or approved for implementation for the short and medium-term are also identified to the extent possible and analysed in the context of world supply of raw materials. Are we, in fact, expanding the world leather industry capacity faster than what the raw material supply line can support?

(b) What are the current rates of raw material utilization in developing countries relative to total production and the value added at source by product groups? It is suggested that the Panel consider the development of a typology based on product groups in which the developing countries have a potential or have already established comparative processing cost advantage by country and/or region and by different economic environments.

(c) What are the problems, if any, in technology transfer and adaptation in downstream products in developing countries, including the problems of research and development? The assumption made generally in this connexion is that even with the transfer of technology, the developing countries cannot expect to produce downstream products which would compete with those produced in developed countries. Is this true? And, if so, why?

(d) What are the main constraints to redeployment of leather and leather products industry from the developed to developing countries given the present international division of labour?

34. The Panel is requested to consider the points raised above and recommend the type of strategy which would ensure the development of international co-operation in this regard between:

(a) developed and developing countries, and

(b) developing countries themselves

with a view to expand the share of manufacturing activity in downstream products in developing countries.

Issue 3. The prospects for liberalization of international trade in raw hides and skins and leather and leather products and the issues regarding tariffs and non-tariff barriers to trade.

35. Economic development of the developing countries in the leather and leather products sector requires an interrelated approach as regards production and trade. In particular, the elaboration of specific measures for the production of, and trade in, leather and leather products.

36. The process of economic development and transformation of hides and skins in the developing countries would endow them with a growing range of production capacities in leather and leather products, and that, to the extent that the developing countries are already equipped with similar capacities, there must inevitably be a basic and long-term problem of adjustment and accommodation in this sector.

37. International co-operation between developed and developing countries to promote the leather and leather products industry has assumed increasing importance with the persistence of slow growth and unemployment in the sector in many developed countries in recent years. The implementation of practical measures to bring about such co-operation could help solve these problems and thus contribute to an improved and dynamic pattern of world trade and production in the leather industry.

The rise in protectionism

38. At the present time international trade in leather footwear, for example, is being affected by a wide variety of devides, for example "orderly marketing arrangements" and new import quotas and "voluntary" export restraints in order to protect the domestic industries in the developed market economies. There have been calls at the GATT Multilateral Trade Negotiations (MTN's) for the control of market shares on a regional or world-wide basis and for extending protection to **leather manufacturers**. All these types of measures adversely affect developing country exporters: quantitative restrictions and market sharing agreements limit their sales in industrialized countries directly, while subsidies to weak industries do so indirectly.

39. By discouraging the growth of trade in leather and leather products, protectionist policies will disrupt the increasing division of labour that has been a major source of growth for the industrialized countries over the past twenty-five years: by delaying structural changes in the leather industry, protectionism delays the shift of labour out of traditional industries where labour productivity is low, such as footwear, into industries where labour productivity is higher. Labour costs in the industrialized countries will therefore rise more than they would if greater labour mobility were permitted, and economic growth will be slower.

40. Imports from suppliers whose production costs are low can have a very beneficial effect on prices, reducing inflationary pressures and facilitating the management of demand.

Marketing practices

41. Except for Scandinavia where farmers' co-operatives encompass slaughtering and the marketing of by-products, there seems to be no other area where the primary producer, the farmer, receives an improved return on his beast for having taken care of its hide and/or skin . Although in some countries better returns are earned for well flayed hides and skins, in many countries there are noneand generally speaking the differentials between good and bad quality, as far as offtake is concerned, where they pertain, are too low.

42. Simplification of the hide and skin marketing channels in many developing countries is needed. The comparatively low price offered to producers when set against the value of the hide or skin in the tanner's raw store reflects the length of the chain and the number of profit margins that have been included. This would require detailed investigation and careful action because improvements would call for breaches in centuries-old trading practices and social customs particularly in certain parts of Africa and Asia.

Changing subject of trade

43. Not being an industry that requires large inputs of labour, leather manufacturing is now increasing in the developed countries in the sphere of semi-processed production.for export. As supplies available to the world market exist in fewer countries, the sources of alternative supplies of such raw material are more and more limited and therefore this gives greater viability to the production and export of semi-processed hides and skins. From the primary processor's point of view this gives him the advantage of value added by the degree of processing applied. From the purchaser's point of view it alleviates his actual or potential problem of toxic waste disposal, but it limits the scope of utilization of the material. This trend was initiated by the developing countries themselves many years ago, notably by those who had indigenous supplies of vegetable tanning materials.

44. The increasing trade in non-putrescible raw material in a form which is suitable to the application of more accurate quality and quantity gradings suggests that two important commodity marketing improvements could be made:

(a) area rather than weight or 'per piece' should become a more standard basis for transactions and statistical accounting;

(b) there could be the possibility of holding buffer stocks of wet blue or crust material as a means of reducing price fluctuations, as has been applied with other commodities.

For the latter, the whole concept of creating buffer stocks needs to be evaluated for the industry as it would be a totally new departure, except for certain crisis situations where hides and skins supplies have come under official control.

45. Trade in a raw material with a limited shelf life carries the constraint that there are limitations on the length of time salted hides can be warehoused against a rise in raw prices. In a trade environment characterized by broadening demand, yet with the growth in semi-processing of raw material for entry into this trade, the opportunities for holding material to gain such advantage must present themselves.

46. Properly organized buffer stocks must be preferable to the development of trading company commodity caches. Growth of trade in semi-processed material also favours the improvement in statistical information that is so earnestly desired. Area would become a more accurately established common denominator and the use of conversion factors would be obviated to a certain extent. More information on quality classifications and area categories could be fed into the information channels.

47. The supply of increasing and regular information of availabilities to the market would mollify the anxiety over market supply which has often caused sudden and unjustified price increases.

48. Finally, in order to have a base for an eventual adjustment of the Standard International Trade Classifications (SITC) and its nomenclature, it is considered necessary that initial thought should be given to the compatability of international trade classifications and nomenclature currently in use, taking into consideration the changes in composition and specifications of commercial transactions which have taken place since the present classifications and nomenclature were established.

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