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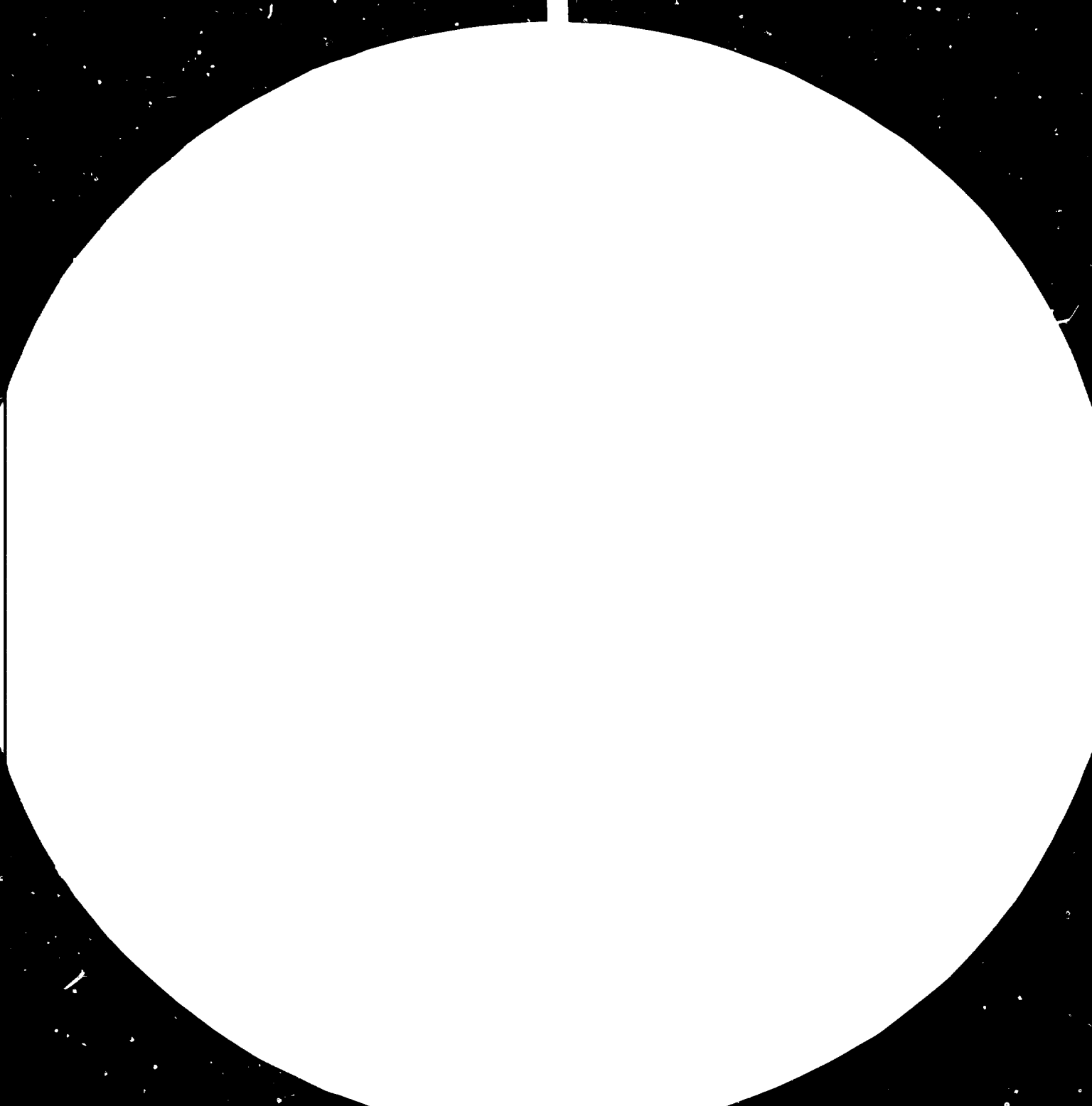
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7. *Resolution Test Chart*, 1963, by *U.S. Army Research Office-Durham*

8. *Resolution Test Chart*, 1963, by *U.S. Army Research Office-Durham*

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UNITED NATIONS INDUSTRIAL
DEVELOPMENT ORGANIZATION

Fifth Session of the Leather and
Leather Products Industry Panel

First Session of the Ad Hoc Industry Working Group

Vienna, Austria, 23 - 24 November 1981

BACKGROUND PAPER FOR THE
FIRST MEETING OF THE INDUSTRIAL WORKING GROUP OF THE
LEATHER AND LEATHER PRODUCTS INDUSTRY PANEL*

Prepared by the UNIDO Secretariat

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Corrigendum

Page 25

Paragraph 59 should read

59. Initially the I.C.T. proposal suggests that free access must be effected up to a minimum of 15 % of raw materials, leather and leather product markets by 1984 and at least 25 % by 1989.

I. SUMMARY

1. The working paper summarizes the distribution of the Leather and Leather products industry between the developing and the developed countries and gives due regard to the availability and exploitation of the raw materials as reflected by the production of leather and leather products and global trade within the sector. Analyses are attempted of trends over the last decade, as well as of the current situation, where it is noted that the industry in both the developing and developed countries is in the process of structural change. This has led to some measure of conflict between the subsectors, generating trends towards increasing imposition of protectionist measures.
2. It was in order to overcome these trends that the Second Consultation on the Leather and Leather Products industry, held in Cologne, Federal Republic of Germany, June 1980 felt that ... "ground rules are necessary for a healthy, free and fair international trade development, having regard to circumstances peculiar to the hide, skins, leather and leather products industry". ^{1/}
3. The findings of this working paper are that the major factors which contribute to the current problems of the global leather and leather products industry, are:
 - (i) The natural migration of industrial capacity, within the industrialized countries, with the leather and leather products industries being concentrated in those countries with relatively lower labour costs and available artisanal and entrepreneurial skills, with concomitant decline in these sectors in other O.E.C.D. countries.
 - (ii) The destabilization of the sector due to the astronomic hide price variations, as seen by the price ceiling of mid-1979 (prices peaked at about three times the median of the previous five years), and the subsequent slump (of mid-1980) which found hide prices plummeting to one-third of their 1979 prices.

^{1/} See ID/255, Report of the Second Consultation on the Leather and Leather Products Industry, Cologne, Federal Republic of Germany, 23-26 June 1980, P. 12, Paragraph 12.

(iii) Lagging consumer demand associated with the general economic recession plaguing the developed countries.

(iv) The development of the sector and consequent export market penetration by some developing countries.

4. Against the severe consequences of (i) - (iii) above, the effect of the steady growth of the developing countries in production and trade of leather and leather products may be considered minimal, and such steady expansion and consolidation is unlikely to bear major responsibility for present conditions in the sector.

5. Whatever is responsible for the current situation, it is accepted that there is today need for international "ground rules" for the restructuring of the sector, and the working paper suggests that the four areas where fruitful discussion could occur are:

(i) How to initiate a truly "International Hide Improvement Scheme".

Such a scheme could, if given substantial financial inputs, raise both quantity and quality of raw material for the sector, especially in developing countries, thus lessening pressure on existing supplies and allowing more rapid sectoral growth. Previous efforts in this sector have had only limited localised effect.

(ii) Multilateral Trade Agreements for the sector. For example, can the ICT Doctrine be accepted by developed and developing countries considering the wide disparity in sectoral status within the developing countries? Can the inherent conflicts within an ICT type proposal, between interests of leather versus leather products sectors be reconciled? Which forum and what sequential steps should be taken to implement the conclusions drawn by the ICT?

(iii) At what rate may the developing countries plan to expand their leather sectors? Should they grow, as in the past decade, at 3 - 4 % per annum, or at the level of growth of raw material only?

(iv) What assistance may be given to those developing countries which have not yet fully developed the sector, yet their potential in leather and leather products, if exploited, could have significant effect on their economies? Accepting the inevitability of the stagnation and possibly the decline of the leather and leather products sectors within the developed countries, there will exist, in these countries, a surplus pool of expertise. Could such under-utilized skills in the developed countries be harnessed to provide services to the developing countries in the fields of management, technology, marketing, fashion and design?

II. THE DISTRIBUTION OF RAW MATERIALS, STRUCTURE AND TRENDS IN THE LEATHER AND LEATHER PRODUCTS SECTORS

General current situation

Introduction

6. In general, until recently, the leather and leather products sectors of industry, averaging 1 - 2% of G.N.P., have not been considered of great industrial or economic significance anywhere. However, with the advent of the development decades in the 1960s, coupled with independence, many countries reappraised their domestic resources. In the developing countries, in many of which hides and skins are a highly significant domestic resource, the decision was taken that they should develop this sector to maximize domestic value added. Botswana and Ethiopia are examples of countries where the transformation of raw hides and skins into finished leather products could effect a 10% increase in G.N.P., and thereby justifying the emphasis placed on developing this sector.

Raw material distribution

7. The developing countries hold the majority of the global stock of live animals within their territories, but due to poorly developed animal husbandry techniques, coupled with social traditions, the offtake rate (recovery) is poor. The hides and skins obtained are also smaller, and the situation is compounded by the numerous defects (ante and post-mortem) found on the hides and skins from most developing countries.

8. Table 1 outlines the situation with regard to bovine hides, and it may be seen that though they hold some 68% of the global live herd, the developing countries only produce some 40% of the hides (on an area basis). The effective hide yield in developing countries is only 3.8 ft.² per live animal per annum, compared to 12 ft.² produced per animal per annum in the industrialized countries. Table 2 shows a similar but less extreme pattern with regard to sheep and goat skins.

TABLE 1: POSSIBLE WORLD PRODUCTION OF HIDES AND SKINS, 1979

A. HIDE

		<u>Stock of Live Animals (1)</u>		<u>Potential Production Hides (2)</u>		<u>Potential Production Hides a. Skins (3)</u>		<u>Yield ft.² per Live Animal p.a.</u>
		Millions	%	Mil. Pcs.	%	Million ft. ²	%	
Bovine (Inc. Buffalo a. Calf)	Developing Countries	917	68	133	48	3458	40	3.8
	Developed Countries	426	32	146	52	5125	60	12.0
	World	1,343	100	279	100	8583	100	

- Sources: (1) F.A.O. Production Yearbook 1979 Vol. 33
 (2) F.A.O. World Statistical Compendium for Raw Hides, Leather and Leather Footwear
 (3) Calculation from (1) and (2) and UNIDO/ICIS. 45, Draft World Wide Study of the Leather and Leather Products Industry 1975 - 2000, 16 September 1977.

TABLE 2: POSSIBLE WORLD PRODUCTION OF HIDES AND SKINS, 1979

B. SHEEP AND GOATS

	<u>Stock of Live Animals</u>		<u>Potential Production Skins</u>		<u>Potential Production of Skins</u>		<u>Yield ft.² Skin per live animal per annum</u>
	Millions	%	Mil. Pcs.	%	Million ft. ²	%	
Developing Countries	990	65	373	64	1,791	59	1.31
Developed Countries	540	35	210	36	1,264	41	2.34
World	1,530	100	583	100	3,055	100	

Sources: as in Table 1

9. The total situation with regard to hides and skins production is shown in Table 3, where it may be seen that although holding between 65 - 68% of the live animals, the developing countries produce some 45% of total hides and skins (on an area basis).

TABLE 3: DISTRIBUTION OF HIDES AND SKINS, 1979
(Calculated on potential leather area basis Million ft.²)

	<u>Bovine</u>	<u>Sheep and Goat</u>	<u>Total</u>	<u>%</u>
Developing Countries	3,458	1,791	5,249	45
Developed Countries	<u>5,125</u>	<u>1,264</u>	<u>6,389</u>	<u>55</u>
World	8,583	3,055	11,638	100

Source: aggregated from Tables 1 and 2.

The Tanning Industry

10. Only limited data is available regarding the distribution of tanning activity between the developed and developing countries. The UNIDO Draft World Wide Study suggested that in 1975 global tanning activity was distributed as follows:

TABLE 4: TANNING ACTIVITY 1975 ^{2/}

Developing Countries	30.8%	3.5 billion ft. ²
Developed Countries	69.2%	7.8 billion ft. ²
World	<u>100.0%</u>	<u>11.3 billion ft.²</u>

11. Although the method of calculation possibly underestimates the developing countries' share, it takes cognisance of the fact that many hides and skins in developing countries are semi-processed, to wet blue and crust leather. This is therefore only partial exploitation of the potential of the raw material by the developing countries.

12. If the observed trends had continued until 1979, the situation at that time in the tanning sector may have been:

^{2/} Draft World Wide Study of the Leather and Leather Products Industry 1975 - 2000, UNIDO/ICIS 45, 1977.

TABLE 5: TANNING ACTIVITY 1979

Developing Countries	36%	4.2 billion ft. ²
Developed Countries	64%	7.4 billion ft. ²
World	100%	11.6 billion ft. ²

The Leather Footwear Industry ^{3/}

13. The UNIDO Study of 1977 approximates distribution of leather footwear production in 1975 as:

TABLE 6: DISTRIBUTION OF LEATHER FOOTWEAR PRODUCTION

Developing Countries	34.6%	1.1 billion pairs
Developed Countries	65.4%	2.1 billion pairs
World	100.0%	3.2 billion pairs

14. No fair estimate of a more updated position regarding global production in this sector may be given, as the widely differing growth projections for developing countries vis-à-vis developed countries, have not been proven or closely monitored.

^{3/} It should be noted that unless expressly stated otherwise all reference to footwear in this paper is to leather uppered footwear, as this paper is concerned only with leather and leather products.

Recent trends

The Tanning Industry

15. The developing countries were well poised to fully develop this sector on the basis of domestically available hides and skins. With regard to the first phase, the production of leather, the developing countries, in addition to their raw material, had sufficient supplies of low cost labour. In the 1960s and 1970s, the developed countries were exhibiting general industrial expansion in high technology industrial sectors, and were not averse to discarding low technology industries, seeing their future in the latter category in the area of services rather than manufacturing. This particularly applied to the tanning industry which, with its arduous manual operations and possible high levels of pollution, imposed high labour and overhead costs in the developed countries. Given this scenario, the developing countries, in the last two decades, made significant investment in tanning capacity, and improved upon their earlier role of raw material suppliers to world markets. In this expansion of industrialization labour costs were of little significance.

Leather Products

16. In the area of leather products, with its high labour intensity, the developing countries held at least one economic advantage in their large low cost labour force. For example, in leather footwear production, labour with overheads can account for up to 50 % of ex-factory costs in the industrialized countries. The developing countries could easily compete the basis of price, even if they used lower levels of technology and had lower productivity. However, given the rapid changes in style, due to the fashion content of many leather products, the apparent great advantage of many developing countries was inhibited.

17. In many cases, the developing countries' domestic demand and the market for leather products was insignificant, in relation to the raw material potential and it was envisaged that in developing this sector, significant volumes of leather and leather products would be exported to the larger existing markets of the developed countries, to maximise foreign exchange earnings.

18. To follow this development strategy, many developing countries decided to conserve their raw hides and skins, imposing physical barriers on the export of the raw (and even semi-processed) materials, coupled with fiscal policies aimed at minimising the exportation of products with low manufacturing value added, and encouraging exports of leather and leather products with higher levels of value added in manufacture.

19. The UNIDO Study of 1977 ^{4/} implied that the development in the leather sector had yielded a sectoral growth of 3 to 4 % per annum, coupled with the growth of raw material at 1 to 2 % p. a. in the developing countries. Globally this possibly effected a 1 to 2 % p. a. decline of the sector in the developed countries, with marked variations from country to country.

20. In addition to commercial policies which attempted to change the composition of exports, developing countries also took steps to protect their domestic markets for leather products to assist their nascent industries.

21. As a consequence of the success of some developing countries in their development programmes, the developed countries encountered three-fold attack on their entrenched position:

- (i) The supply of raw hides and skins previously available from developing countries was shrinking. The effect was amplified by the fact that some raw materials from developing countries have specific characteristics, suitable for specialized end-products and are not easily substituted.
- (ii) The markets of the developed countries were being penetrated to varying degrees by lower-priced leathers and leather products from the developing countries. Some leather and leather products manufacturers in the industrialized countries, complained that the high level of public esteem for leather, built up over many years with high investment in promotional campaigns was being undermined by lower quality products from developing countries.
- (iii) The internal markets in the developing countries for leather and leather products were no longer open to products from the industrialized countries.

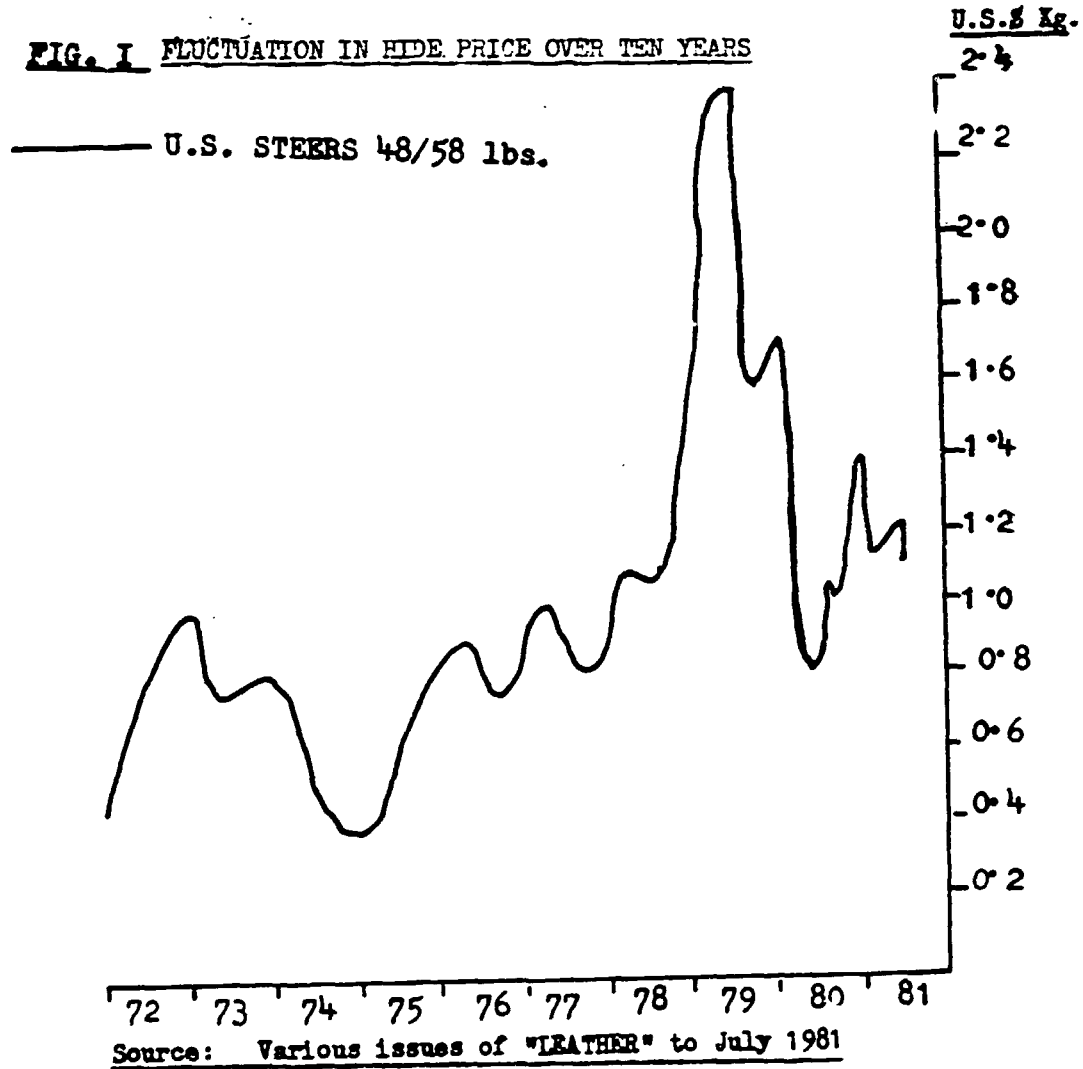
Hides and skin price fluctuations and their impact

Price Fluctuations

22. It may be that two distinct periods of gross distortion in the traditional production and trading pattern of the global leather sector have had greater effect than the gradual changes in the location of industrial capacity, and any confrontation which exists today between the developed and developing countries may be attributed to these periods of market instability. The conditions referred to may be divided into two periods:

^{4/} UNIDO/ICIS 45

(i) The period from 1975 up to mid-1979, when global demand for raw hides and skins peaked, resulted in hide prices peaking at unprecedented high levels (see Fig. I). In this period, for example, U.S. hide prices rose from the 1975 - 78 range of \$ 0.80 to \$ 1.00 per kg to the peak price of \$ 2.40 per kg in mid-1979.



The result of such serious escalation of raw material prices was resulted in a degree of destabilization of trade in the sector. Hide and skin exporters in some cases reneged on old contracts, insisting on the new high prices. Tanners were unable to buy sufficient raw materials to cover orders, leather products manufacturers resisted the new price structure and, of greater importance, the high market price destroyed the retail demand and led to conditions of the following period.

(ii) In the period of mid-1980, hides and skins prices plummeted to a nadir (U.S. hides went down to \$ 0.80 per kg) as the natural market response to (i) above. The period was characterized by large stocks of high priced finished products left in the stocks of manufacturers, merchants and retailers, valued at far above current replacement costs - leading to price wars, sales and special offers to dispose of the surpluses. Consequently, products producers cut back production, leading to labour unemployment and factory closures. Tanners of the developed and developing world, faced with reductions in orders for leather, sought in some cases to avoid their contractual obligations to purchase hides and skins. Raw material suppliers faced with low levels of demand, and in many cases, had stock on hand purchased at well above current prices. At such time, even the relatively low-volume, low-priced, imports from developing countries aggravated the situation, and yielded increased protection and further imposition of trade barriers by developed countries.

Hide prices effect on end products

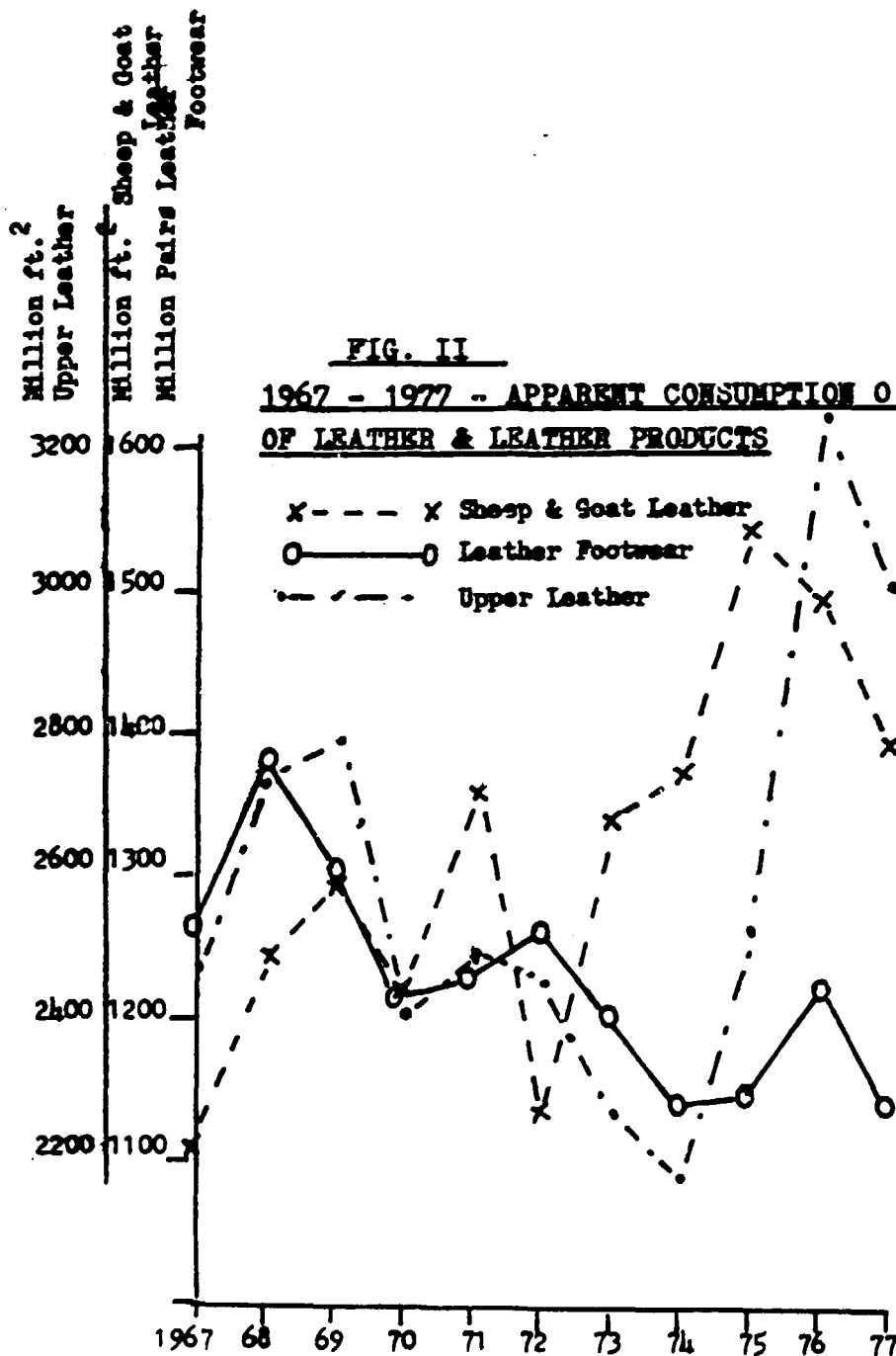
23. With the high hides and skins prices of mid-1979, there was a concomitant upswing in product prices and in many areas of the world, including the O.E.C.D. countries, the cost of leather products reached such levels that utilitarian usage declined, and leather articles were being viewed as luxury items. If the trend had continued, working shoes and similar products would have progressively been fabricated more and more from lower cost, alternate materials. Such trend could, if sustained, affect developing countries in two ways:

(i) The prices of leather products in domestic markets of developing countries, even if partially shielded from global free market prices, could have risen well above the level at which large volume markets could be found in these countries. Thus manufacturers in developing countries would have to undertake raw material substitutions, in order to save on high-priced leather. Economically, such measures may be feasible over a long period, but in the short term they could only have serious effects on small scale and rural and artisanal producers who lack the technology and material supply to produce non leather products.

(ii) If it is accepted that the high raw hides and skins prices of mid-1979 would tend to place leather products in the prestige/luxury category, it could be that in addition to limiting domestic demand for leather, an impact would be felt in the area of potential exports from developing countries. The developing countries have, in many cases, sighted their exports at the mass volume standard working shoe and similar products, and may not have rapidly been able to attain the quality of leather end product required by the higher priced fashion product markets, which affords many hurdles to potential developing country entrants.

Consumption of Leather and Leather Products

24. There is a dearth of available data regarding global consumption of leather and leather products. The situation in the O.E.C.D. countries over the period 1967 - 1977 however, is shown in Figure 2. With regard to leather, the consumption grew over the decade, with decline noted only over the latter one or two years. Leather footwear consumption however declined steadily in O.E.C.D. countries throughout the decade.



Source: O.E.C.D. Annual Statistics

25. The pattern shown may reflect the increased utilization of leather for garments and other non-footwear products. The reduction of unit production of leather footwear with increase in utilization of leather may also reflect increased production of fashion and other boots with higher leather input per unit.
26. The decline in leather footwear consumption in O.E.C.D. countries have been balanced by an increase in consumption in this sector in developing countries, possibly as a result of development activity within this sector boosting production, with the intent of securing export markets for such products. In the face of difficulties in obtaining such exports, the products may have been diverted to domestic markets. For example, an UNIDO compilation of Indian leather footwear data shows the following pattern:

TABLE 7: INDIAN PRODUCTION, EXPORTS AND APPARENT CONSUMPTION OF FOOTWEAR

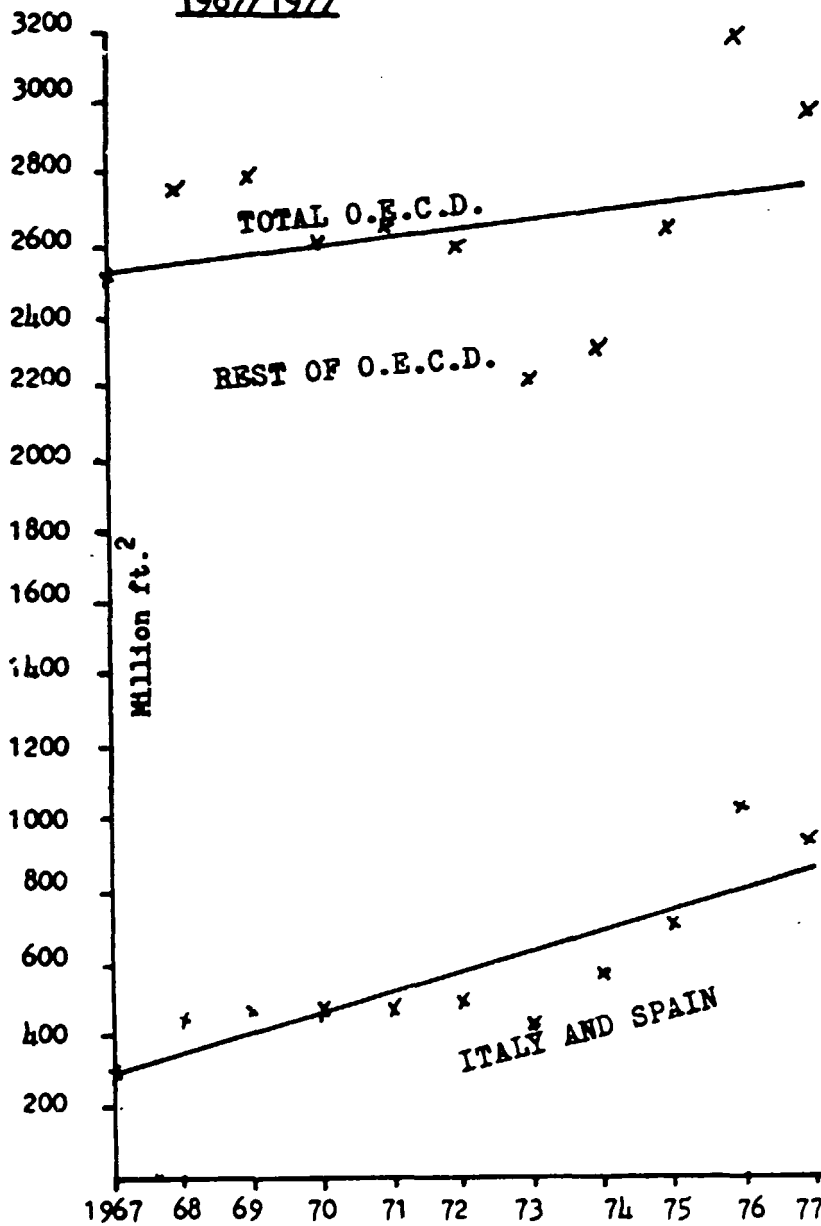
	<u>Production</u> <u>Million Pairs</u>	<u>Export</u> <u>Million Pairs</u>	<u>Apparent Consumption</u> <u>Million Pairs</u>
1962	122	3	119
1972	222	8	214
1977	258	-	-
1985 (Est.)	358	17	301

Production of Leather and Leather Products

27. The only detailed statistics available in this sector relate to O.E.C.D. countries, and Fig. 3 shows the O.E.C.D. production of upper leather in the period 1967 - 1977. It is significant to note that over the decade the total O.E.C.D. subsectoral production increased. However, production grew at a much higher rate in Italy and Spain, the rest of O.E.C.D. exhibited a fall in production.

FIG. III

O.E.C.D. PRODUCTION OF BOVINE UPPER LEATHER
1967/1977



Source: O.E.C.D. Annual Statistics

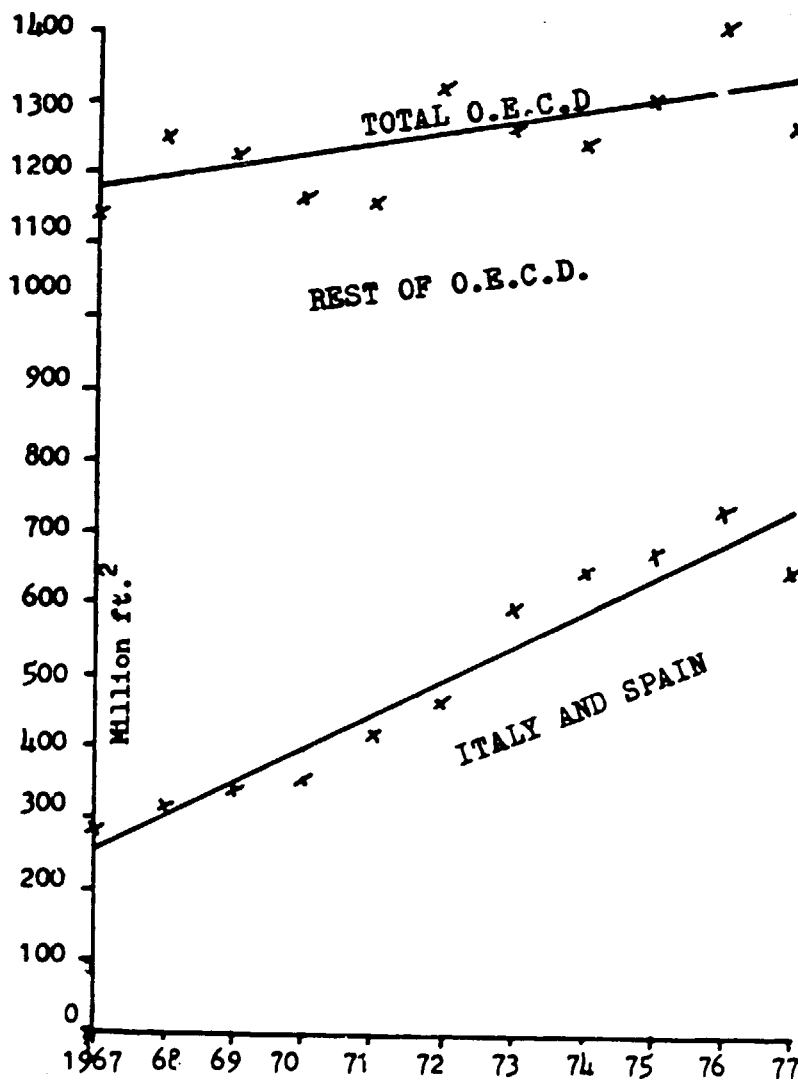
28. A similar but more extreme pattern may be seen in Fig. 4, where O.E.C.D. production of skin leather is shown. It is interesting to look at this data in perspective:

TABLE 8: O.E.C.D. SKIN LEATHER PRODUCTION
Million ft.²

	<u>1967</u>	<u>1977</u>
Total O.E.C.D.	<u>1,147</u>	<u>1,265</u>
Italy and Spain	281	640
Rest of O.E.C.D.	866	625

FIG. IV

O.E.C.D. PRODUCTION OF SKIN LEATHERS
(Million ft.²)



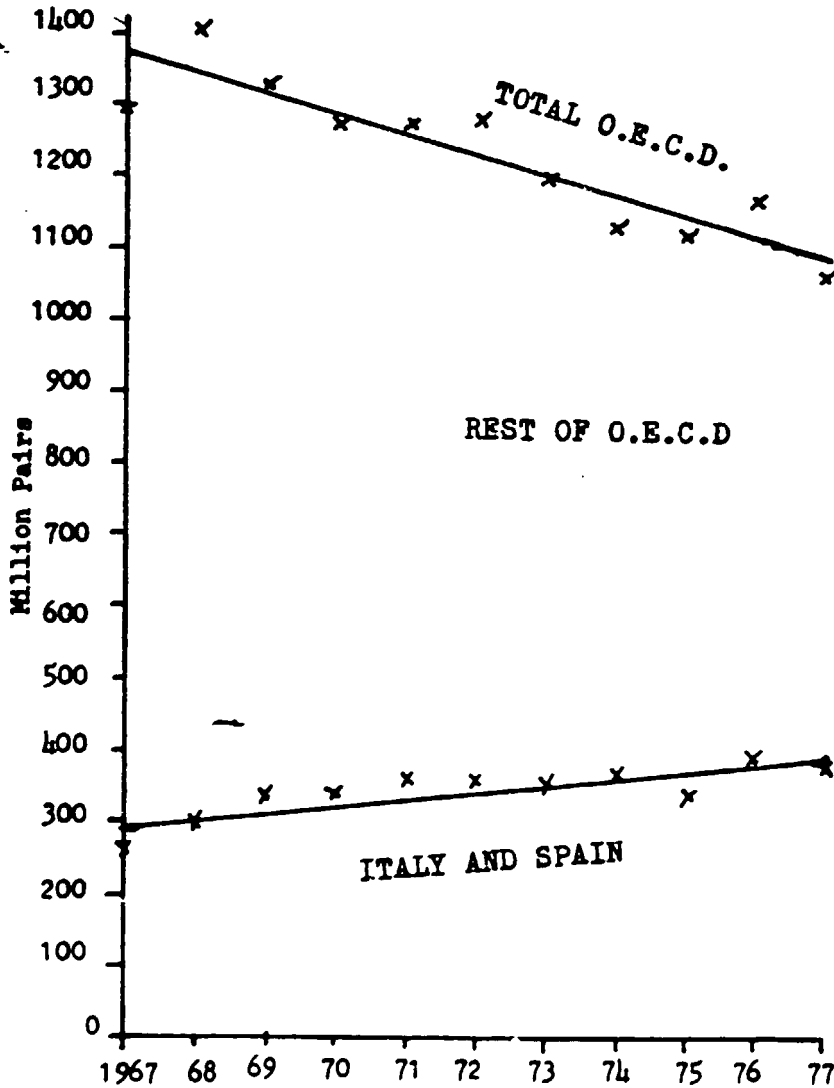
Source: O.E.C.D. Annual Statistics

29. In the leather footwear subsector, O.E.C.D. production declined as shown in Fig. 5. Once more the situation for the rest of the O.E.C.D. was exaggerated by the growth of production in Italy and Spain, causing the rest of O.E.C.D. to exhibit a significant drop in production.

30. In summary, the best estimate of the global situation remains in the UNIDO world wide study of 1977 which implied that developing countries' tanning and leather products sectors were growing at 3 - 4% p. a. with the sector in the industrialized countries declining at 1 - 2% p. a.

FIG. V.

O.E.C.D. PRODUCTION OF FOOTWEAR (LEATHER UPPERS)



Source: O.E.C.D. Annual Statistics

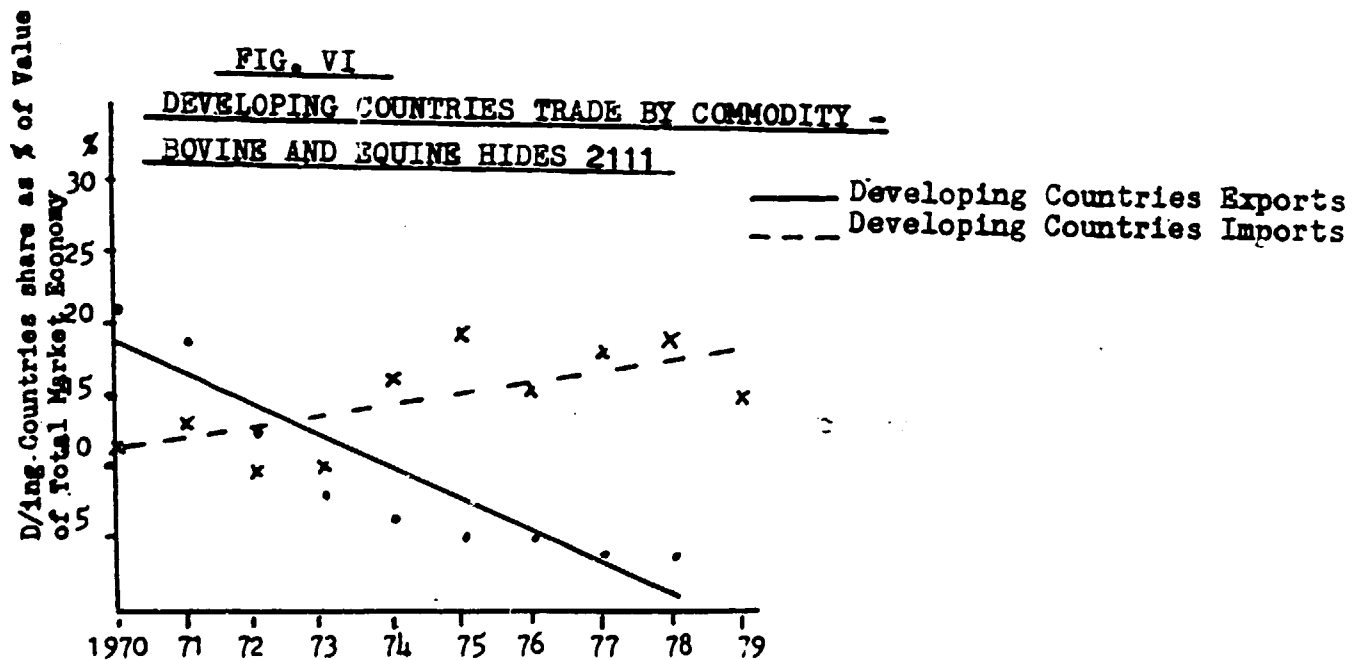
Developing countries penetration of world markets

31. During recent years, with the leather and leather products industries finding trading conditions difficult, suggestions have been made in some developed countries, that much of the sectoral destabilization is due to market penetration by products from the developing countries. Indeed, such views have been employed to justify protectionist policies.

32. It may be pertinent to briefly look at the levels of penetration by the developing countries to assess whether they have, as yet, attained significance or whether activities by others have had greater impact.

Raw Hides and Skins

33. The role of the developing countries in world trade in raw hides and skins may be typified by the situation regarding bovine hides. Fig. 6 shows a significant decline in developing countries' hide exports over the period 1970/9 coupled with an increase in imports of the same commodity.



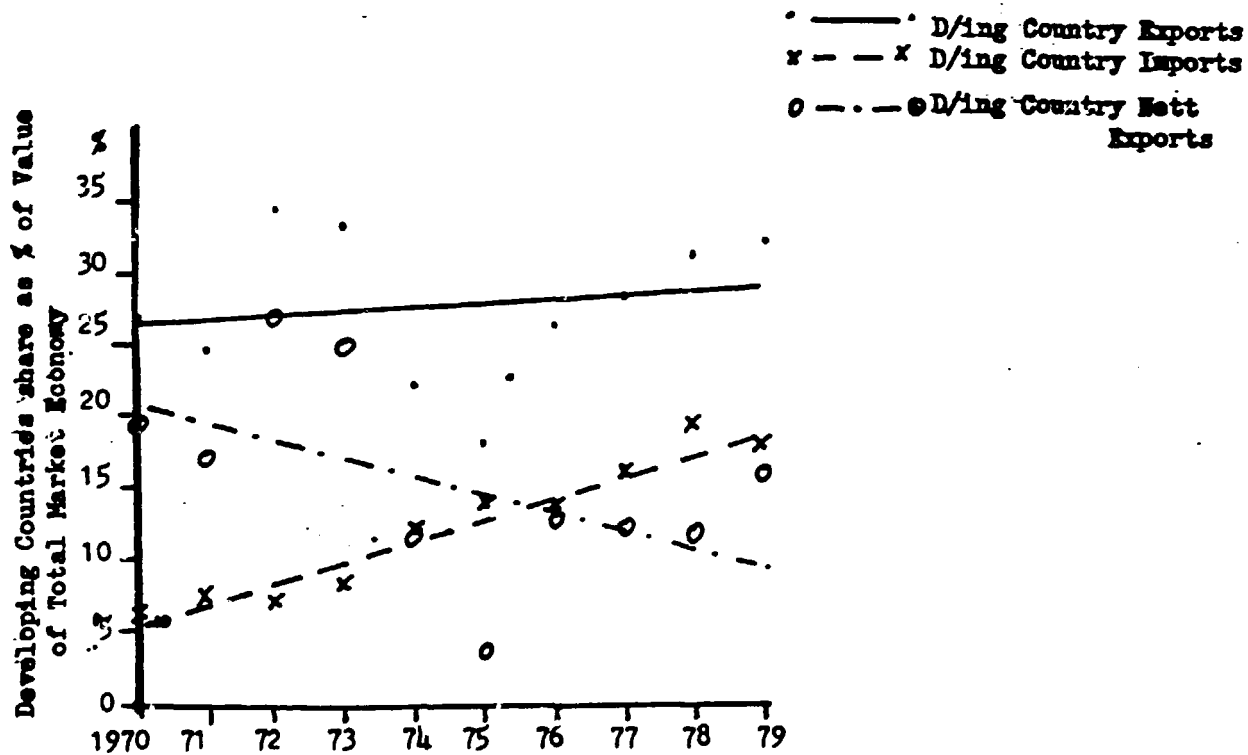
Source: UN Yearbook of International Trade Statistics

34. Such data confirms the increased tanning activity within the developing countries, which have completely reversed their role over the decade within category 2111 from being nett exporters of 10.5% of Value of total trade among Market Economies, in 1970 to becoming nett importers of 14.7% of Value of total trade among Market Economies, in 1979.

Leather Sector

35 Fig. 7 shows the developing countries' share of international trade in one significant sector, Bovine Leather N.E.S. 6114, (value terms expressed as % of total market economy trade).

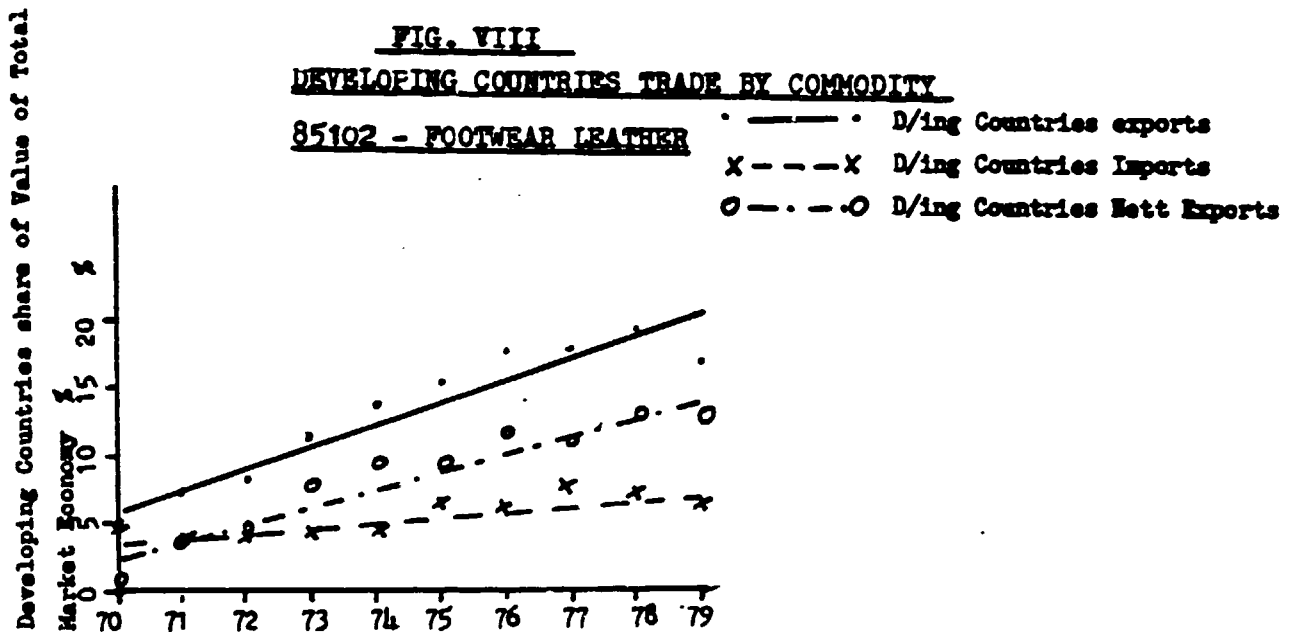
FIG. VII
DEVELOPING COUNTRIES - TRADE BY COMMODITY 6114 LEATHER
BOVINE N.E.S. EQUINE



36. It may be seen that developing countries increased their exports over the period covered (26.9% in 1970, to 31.9% in 1979) however, their imports of the same category over the same period increased at a more rapid rate (6.1% to 15.9%). Thus, their nett exports over the period declined from 20.8% (1970) to 16.0% (1979). This trend reflects the increased utilization of leather in the developing countries for the manufacture of finished products. Such evidence does not support the notion of world markets being swamped with exports of leather from developing countries and certainly in this sector, over the period, the developing countries cannot be held responsible for destabilization.

Footwear

37. Fig. 8 shows the developing countries' share of international trade in the leather soled footwear category (85102) (value terms expressed as % of total market economy).



38. In this category, the nett exports of the developing countries rose over the 9 year period from 0.6% (1970) to 10.7% (1979) of the Value of Total Market Economy. Over this period, the developing countries' exports rose to significant levels, but is it likely that such exportation level could account for any appreciable market destabilization?

Sectoral migration within the O.E.C.D.

39. Further O.E.C.D. data in Table 9 quite clearly show the effect of the relocation of the European footwear industry towards the Mediterranean countries. It can be seen that 1977 intra-O.E.C.D. imports far exceed the imports from developing countries, the former accounting for some 25.5% of O.E.C.D. consumption, compared to 10% for the latter. Specifically O.E.C.D. imports from Italy, Spain and Portugal rose from 8.5% of O.E.C.D. consumption in 1967 to 19.2% of O.E.C.D.

consumption in 1977. In this instance, the combined impact of Italy, Spain and Portugal seems far greater than that of the developing countries.

TABLE 9: O.E.C.D. PRODUCTION, CONSUMPTION AND IMPORTS IN FOOTWEAR WITH LEATHER UPPERS

	<u>1967</u> Million Prs.	<u>1967</u> Expressed as % of OECD consump.	<u>1977</u> Million Prs.	<u>1977</u> Expressed as % of OECD consumption
OECD Production	1,284		1,058	
OECD Consumption	1,263		1,140	
OECD Imports from D/ing Countries	6	0.5	115	10.1
OECD Imports from European OECD countr.	141	11.2	291	25.5
OECD Imports from Italy, Spain, Portugal	107	8.5	226	19.8
TOTAL OECD Exports	168		328	28.8

Source: O.E.C.D. Publications 1969 and 1979

40. To place a perspective on the impact of the increasing market shares of the Mediterranean countries, it is necessary to view the growth in sectoral trade over the past years (see Table 10) from which it may be noted that the volume and value of the trade in the sector has risen enormously. The growth in value of trade has been higher than that of units, and as such may be viewed as real growth.

TABLE 10: GLOBAL GROWTH IN TRADE - HIDES, LEATHER AND LEATHER PRODUCTS

	<u>1966</u>	<u>1973</u>	<u>1979(Est.)</u>	<u>1966 - 1979</u> Growth p.a. %
<u>Cattle Hides and Calfskins</u>				
World Export Value Million US\$	529.7	1069.6	2656.1	13.2
World Export Volume Thousand M.T. (WS)	1088.0	1160.7	1571.9	2.87
<u>Light Leather (Cattle and Calf)</u>				
World Export Value Million US\$	210.4	560.3	1504.1	16.33
World Export Volume Million ft. ²	576.7	1005.4	1523.0	7.76
<u>Leather Shoes (All Types)</u>				
World Export Value Million US\$	705.9	2429.7	7084.2	19.41
World Export Volume Million Pairs	201.7	416.8	659.6	9.54

Source: FAO statistical compendium for raw hides and skins
Leather and leather footwear 1961 - 1979, FAO Rome 1980

Impact of migration of production capacity and changing trade patterns

41. It must be apparent that the recent restructuring outlined earlier, somewhat destabilized the raw material, leather and leather products economies of both developed and developing countries, and it may be that in such a climate the industry needs to reexamine its global alignment.

42. Given the finite availability of raw material, and with annual production increasing by only 1 - 2% per annum, increased production or consumption of leather or leather products within one geographic or economic zone is bound to have serious repercussions on other areas. Thus with the Mediterranean areas of Europe and the developing countries expanding production, the rest of the industrialized countries have had to stagnate or retrench.

43. In the face of these pressures, the leather and leather products manufacturing sectors of the developed world, feeling its position being imperilled, sought in some cases, to limit imports of leather and leather products, employing a variety of tariff and non-tariff barriers, in addition to bilateral agreements (e.g. the USA-Argentine trade agreement).

44. In such circumstances, it was most significant that a major universally accepted consensus to emerge from UNIDO's Second Consultation on the Leather and Leather Products Industry at Cologne, June 1980, was the feeling that "ground rules are necessary for a healthy, free and fair international trade development having regard to circumstances peculiar to the hides, skins, leather and leather products industry".

45. Such universal desire for "ground rules" was not generated by altruistic motives but may be considered as being reflective of a decade of structural change within the leather and leather products sector, followed by several years of highly erratic trading conditions.

46. Accepting the limitation of available statistics, it is somewhat difficult to confirm the precise significance of the individual elements of the structural changes, i.e. the southern migration of the industry within Europe to lower cost labour areas, as well as the development of the sector in developing countries. Furthermore, it is suggested in some quarters that much of the current trauma felt in the leather sectors of the developed world was exacerbated by:

- (a) The general economic recession gripping the industrialized nations with concomitant reduction of consumer demand.
- (b) The astronomically high hide prices of mid-1979 (see Fig. 1) being reflected in increased retail price of leather products, which took "real leather" articles in a luxury price bracket, beyond the reach of the majority of the populace.

47. In the resultant discussion on trading arrangements, it is unfortunate that in this era of rapid development, competition and confrontation between sectoral interests, the age old traditions of the industry are ignored; these factors ensured maximum economic and technical utilization of the available raw material. Today much raw material is underutilized, as it is often processed by domestic industries for low level end-products, whereas if handled by specialists (possibly in another country), higher valued end-products could have been yielded and better utilization obtained of the finite raw material base of the industry.

III. MULTILATERAL TRADE AGREEMENT FOR THE LEATHER AND LEATHER PRODUCTS SECTOR

Background

48. With all sectors of the global leather industry agreeing that the last few years had been difficult due to spasmodic leather and leather product demand, coupled with serious price fluctuations leading to poor or negative economic and financial returns, it is understandable that most industrial parties felt the need for some ground rules to ensure a healthy, free and fair sectoral development, which would avoid further market destabilization and heightened confrontation due to increased protectionism.

49. The effect of increased protectionism by the developed countries has led to stagnation of sectoral development in many developing countries, and must be overcome if a strategy for further industrialization of the developing countries is to be realised.

50. In particular the Third General Conference of UNIDO reaffirmed: ... "that redeployment is essential in order to effect an equitable international division of labour at a rate and in a manner consistent with the objectives, priorities and social and economic aims of developing countries within the context of the process of world industrial restructuring",^{5/} and considered: ... "that world industrial restructuring should be linked and facilitated through expanded access to the markets of the industrialized countries and in accordance with measures of special treatment in favour of the developing countries".^{6/}

51. The present scene in the leather and leather products sectors runs counter to these internationally agreed objectives, and it appears essential that some form of international agreement for the sector must be adopted so that "Restructuring of World Industry in the Context of the establishment of the New International Economic Order" can proceed and ... "Sectoral targets should be established for major industrial sectors",^{7/} as agreed at New Delhi.

52. Given the characteristics of the international leather sector, with its high degree of inter-dependence, as evidenced by its wide trade in specialized raw material and products and diversity of product and markets, it seems self-evident that regional policies and agreements may hold only limited prospects of real progress. Bilateral arrangements, although currently controlling certain limited contentious areas cannot in themselves, be the basis for a global restructuring the division of industrial activity. Thus a multilateral approach must be adopted.

^{5/} "New Delhi Declaration and Plan of Action on Industrialization of Developing Countries and International Co-Operation for their Industrial Development", New Delhi, India, 21 January - 9 February 1980, P. 14, Paragraph 51

^{6/} *ibid*, P. 25, Paragraph 116

^{7/} *ibid*, P. 29, Paragraph 139 (a)

Basic North:South Positions

Developed Countries

53. The essence of the developed countries' viewpoint has been that while accepting that nascent industries in developing countries should reasonably be afforded some protection, the protection should be of limited duration, with the major areas of sectoral activity being in an environment governed by "free trade", which is considered to be essential for stability and healthy development and by its competitive nature conducive to improving the quality of products in the developing countries.

Developing Countries

54. The major aspirations of the developing countries have been,

- (a) to seek open markets for their leathers and fully finished products, and
- (b) at the same time to expand production and upgrade the quality of their products, in order to keep pace with fashion requirements, so that they can avail themselves fully of potential market opportunities.

55. However, due to vastly differing development levels in the sector, there must be variation in emphases on these objectives among the developing countries. It is universally accepted that within the leather and leather products sector, developing countries exist at all stages of development, with widely varying levels of technology, expertise and export market penetration.

Multilateral Sectoral trade agreement

Proposals

56. Given the global desire for some form of sectoral "orderly marketing arrangement" to span the apparent chasm between the desires of the long established sectors in the developed countries and the natural aspirations of the industry in the developing countries, it is obvious that any proposal in this area must be closely examined.

57. To date, only one serious proposal has been presented at international fora - this is the "ICT Doctrine on Rules for Fair Trading and Access to Markets", proposed by the President of the International Council of Tanners (I.C.T.), and recently adopted by that body. The doctrine has apparently gained wide acceptance for the quid-pro-quo it offers. The doctrine accepts that, in principle, 100% of free trade in leather might be politically or perhaps economically impossible, and that 100% of protectionism caused unreasonable distortion of legitimate trading, and thus some compromise is necessitated.

58. The basis of the proposal is that:

- (i) all tanners should have the maximum unrestricted access to their primary product and that therefore no country should protect the totality of its primary resources;
- (ii) there should be the maximum unrestricted access to leather markets and that therefore duties and non-tariff barriers on leather imports should be progressively reduced and eventually abolished on a similar proportion of the market as in (i);
- (iii) there should be maximum unrestricted access to leather product markets and duties and non-tariff barriers on imports of leather products should be progressively reduced and eventually abolished to the same extent as in (i) and (ii);
- (iv) that hides and skins supply is generally dependent upon meat production and that therefore an increase in meat production and trade will lead to greater hide and skin availability.

59. Initially the I.C.T. proposal suggests that free access must be effected up to a minimum of 15% of raw material by 1984 and at least 25% by 1989.

60. While accepting the general ideal of the Lima Declaration with respect to: ... "full and intensive utilization and on-the-spot processing of raw materials", it is relevant to keep in mind certain characteristics of the leather sector and its heterogenous raw material, especially in the following areas:

- (i) It would be unrealistic to expect each country to produce all types of finished leathers and products;
- (ii) Certain countries have available domestic raw materials most suitable for specific end-products, unlikely to be consumed in the producer country, or where the specialized manufacturing technology is absent (e.g. hair sheep suitable for high quality gloving, available in N.E. Africa, kid skins suitable for fashion glacé kid in Yemen);
- (iii) It may be globally uneconomic and technically incorrect to employ local materials for all domestic requirements, as this may yield poor end-product or loss of potential, due to underutilization of particular resources.

Thus some degree of trade seems essential at all stages of production.

Implication of the ICT Doctrine

61. There are four areas in which the ICT doctrine may be expected to influence the production and trade in the leather sector:

- (a) With some measure of "free trade" it may be expected that hides and skins prices may tend towards equalization in all countries, based on global market demand. Given a greater volume of material available for international trade, the sharp price fluctuations, as recently experienced, may be avoided. In particular, it is thought that in certain countries, which now prohibit raw hides and skins exports, and have insufficient internal demand or competition, domestic hides and skins prices will not be unduly depressed (as at present) and the economies of the sector will be brought more into line with the global situation, allowing improved conditions of production.
- (b) Given wider availability of raw materials and a realistic hides and skins price structure (based on demand), it may be expected that all producers will make greater efforts to ensure maximum economic and technical utilization of raw materials vis-à-vis end-products.
- (c) With the stimulus of competition and disclosure of know-how through international trade, improvements may be anticipated in tanning, product manufacture, finishing technology and fashion intelligence. This may result in the uplifting of product quality from developing countries, where applicable.
- (d) The proposed partial free trade will avoid future increases in protectionism.

Problems prior to implementation

62. The implementation of the ICT doctrine will need to overcome certain problems including:

- (a) The need to ensure that whatever national license/permit arrangements are found necessary for the "free sector" of raw material and products being traded must allow fair trading for all, without monopoly or other distortive practices.
- (b) The harmonization of possibly differing viewpoints of the tanning and leather products sectors.
- (c) The problems of trade co-existing at protected and "free" levels.
- (d) The need for better statistics on which any quotas must be based.

A brief analytical examination of possible effects of the ICT Doctrine

63. Generally the I.C.T. believes that, given its interpretation of "free trade", there must be inherent in such freedom the seeds of an orderly and harmonious global leather sector production and marketing pattern that will be equitable. Can this be so? Can the obstacles hindering a multilateral agreement be surmounted?

64. As already mentioned, the major hurdles prior to implementation must be in the following areas:

- (a) The problems of reconciling the sometimes conflicting interests of the sub-sectors of the industry, i.e. leather manufacture versus leather products manufacturers. Agreement between these two parties has seldom been obtained at a national level, is it realistic to expect them to agree at the more difficult multilateral level?
- (b) The tanners have an international body, the I.C.T., representing a large proportion of the free market economy tanning sector, however, the footwear and other leather products manufacturers have no comparable international body. How, and in what forum can the initial sub-sectoral negotiations be agreed before approaching the North:South dialogue which, due to the variety of interests must be judged to be a complex negotiation.

65. The I.C.T. rationale suggests that with globally equalized hide and skin price structure, each country will develop production capacity for leather and leather products according to its specialized advantages, these being a balance of the following:

- (i) Raw materials (domestic vs. imported, in relation to domestic and open international markets and available technology),
- (ii) Labour (skills and productivity),
- (iii) Plant and technology available (Quality/productivity in relation to the target market),
- (iv) Markets (domestic and export).
- (v) Entrepreneurial skills (access to market intelligence).

66. In any examination of the relative strengths of developed and developing countries and their sectoral potential, one must distinguish between several categories of developing countries, loosely identified as:

- (i) Developing countries with a large raw material base, recently installed competitive plant and technology for leather and leather products which are technically equal in output potential to the industrialized countries, which within this sector may be considered "Newly Industrialized Countries", N.I.C.s.
- (ii) Developing countries with a large raw material base, but due to tradition and social custom, their production capacity is of a mixed nature with regard to the level of technology, quality control and competitiveness at global level.
- (iii) Developing countries, often with domestic raw materials and nascent leather and leather products sectors, which are equipped with high cost, imported technology, but lack management, production, quality control experience and skills which result in them having a non-competitive production base.
- (iv) Developing countries, which lack domestic raw materials but possess outstanding entrepreneurial and technical skills which allow them entry to leather and leather products sectors of industry on a competitive basis.

67. The I.C.T. proposition of universal free market prices for raw materials, prima facie seems equitable, but one must examine whether all categories of developing countries could exist under such direct competition. Certainly, the N.I.C.s could accept such global price equalization, but it is doubtful if other developing countries could withstand such conditions.

68. It must be accepted, then, that with a few exceptions, the developing countries have today an inherent economic advantage mostly with regard to availability and cost of labour. This advantage of the developing countries, when balanced for productivity and skills, must be accounted as a minor assistance in the leather sector, where labour charges, even in developed countries are only of the order of 10 - 15% of ex-factory costs.

69. In the leather footwear and other leather products sectors, the labour input may account for over 30% of ex-factory costs in the developed countries, however in the developing countries labour input may not exceed 10% and then the latter could have a significant advantage.

70. In a comparison with the capacity and technology of the developed countries it is widely accepted that, due to lack of specialized skills and technologies and material inputs, many developing countries, from a given raw material, are

unable to produce such high quality products. Thus they are reduced to selling their products on world markets at discounted prices.

71. With their protection of domestic raw materials, the developing countries have been able to obtain domestic inputs (raw material and/or leather) well below world free market levels. If the raw material price advantage is withdrawn (due to global price equalization), they could not expect to trade internationally until their technologies and all other relevant factors equal those existing elsewhere. This may indeed be possible in the long term - but how long? Experience in some developing countries suggests that, in many circumstances, one or two decades of protection is necessary before industry is fully competitive. Could the concerned developing countries be given such lengthy protection of their raw material and intermediaries, at the same time being assured of markets for their products?

72. Certainly, exposure to global price levels would impose a requirement of global quality standards and productivity levels within the developing countries, a rapid exposure to equalization of input prices and free competition in domestic and export markets yielding a "sink or swim" situation. Will their industries be able to accept the challenge, or will they die?

73. The situation is aggravated in most developing countries by the fact that, with few exception (some major N.I.C.s), the developing countries must import their tanning and finishing plant, machinery, chemicals and auxiliaries. Thus they have additional transportation costs in these areas, yielding higher input costs which would make direct "free trade" competition virtually impossible against countries with domestic supplies of plant, machinery, chemicals and auxiliaries. Any survey of cost breakdowns in a tannery will show that plant and machinery (interest on investment and depreciation) coupled with chemicals, far exceed tannery labour input. Therefore, additional cost in these areas could never counterbalance savings on labour.

74. It is also pertinent to note that the need to import chemicals and finishes over long distances with consequent time lag, virtually prohibits entry to the higher priced fashion articles - unless costly air freight is employed both for the import of chemical inputs and exports of finished products.

75. It appears, therefore, that barriers exist making fair competition on "free trade" basis between most developing and developed countries an impossibility. Those developing countries with nascent leather and leather products sectors would need lengthy transitional protection periods. There the major problem would arise from the problem of agreeing on the legitimacy and the duration of particular instances of protection.

76. The social implications of "free trade" could be significant in certain countries. If raw material prices were equalized to world levels, the cost of domestic leather products in developing countries may escalate. Many low income countries have a long tradition of domestic leather products utilization among the poorer segments of their populations (e.g. chappals in India). Could one realistically allow the effect of world prices to intrude on the social life, and influence the consumption patterns of the poor?

77. The alternative to equalization of prices is the system of two-tier pricing, i.e. in the "open" market, with 15 or 25% of raw material traded being at global demand prices with the balance being at lower domestic prices. Such two-tier pricing would require an export cess or levy (on the 15 - 25% of "free" material) to effect the two price levels. It would also need national systems of licensing or similar mechanisms, and experience of such limited licensed or taxed exports in such countries where it has been operated in the past, appeared to open the doors to the administrative hindrance of trade and manipulation by traders.

78. In general the need for a multilateral scheme seems acute at times of high demand with peak prices as it would increase the available raw material. The need for such agreement seems less acute when the industry is in recession and there is surplus raw material on world markets.

79. From the developed countries' point of view the ICT doctrine could be of assistance to the tanning sector, but it may be resisted by leather products manufacturers, as it would open them to increased competition in their domestic markets. If the developing countries were allowed a two-tier price structure (with developing countries' domestic market prices at subglobal levels), at the same time, the developed countries' leather products would probably not be competitive in the developing countries' markets.

80. Overall, it must be considered that the ICT doctrine contains the seeds of a fair multilateral agreement, but much more protection will be needed for developing countries - especially those with nascent leather and leather products sectors - before the doctrine can germinate and bear fruit in the form of a healthy, free and fair sectoral development.

IV. DISCUSSION AREAS

81. Whatever is responsible for the current situation, it is accepted that there is today need for international "ground rules" for the restructuring of the sector, and the working paper suggests that the three areas where fruitful discussion could occur are:

(i) How to initiate an International Hide Improvement Scheme.

Such a scheme could, if given massive cash inputs, raise both quantity and quality of raw material for the sector, especially in developing countries, thus lessening pressure on existing supplies, possibly stabilizing raw material prices, and allowing more rapid sectoral growth. Previous efforts in this sector have had only limited localised effect.

(ii) Can the ICT doctrine, suitably amended, be accepted by developed and developing countries, considering the wide disparity in sectoral status within the developing countries? Can the inherent conflicts within an ICT type proposal between interests of leather versus leather products sectors be reconciled? What forum is qualified to discuss and initiate action in this area?

(iii) At what rate should the developing countries continue to expand their share in the leather and leather products sectors? Should they grow, as in the past decade at 3 - 4% per annum, or at the level of growth of raw materials only?

(iv) What assistance may be given to those developing countries which have not yet fully developed the sector, yet their potential in leather and leather products, if exploited, could have significant effect on their economies?

(v) Accepting the inevitability of the stagnation and possibly decline of the leather and leather products sector, a surplus pool of expertise will exist within the developed countries. Could such underutilized skills from the developed countries be harnessed to provide services to the developing countries in the fields of management, technology, marketing, fashion and design? Could international assistance in this sector make significant impact?





