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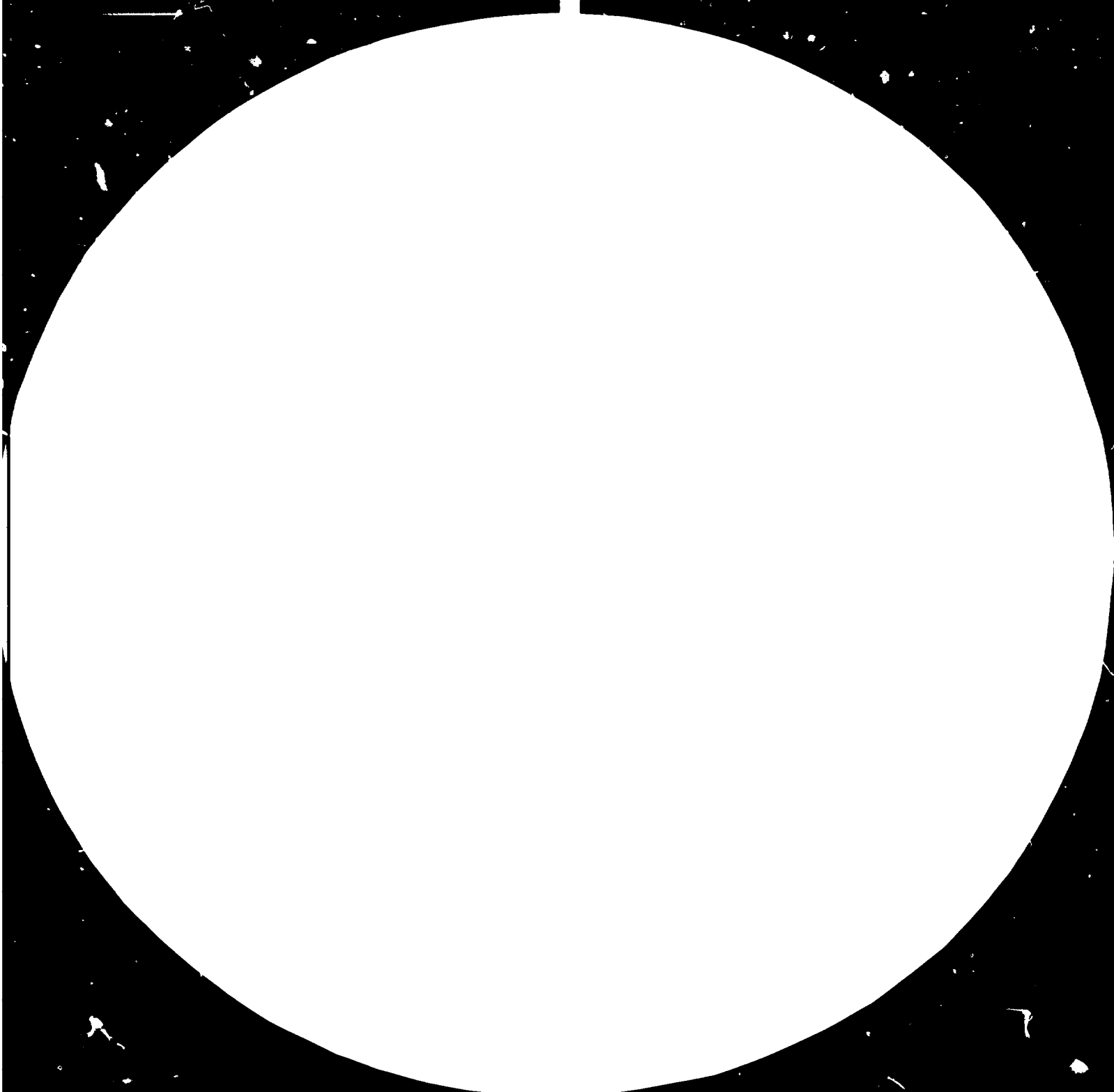
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United Nations Industrial Development Organization

Leather and Leather Products Industry
Second Consultation
Cologne, Federal Republic of Germany, 23-27 June 1980

ISSUE NO. 2: PROBLEMS AND PROSPECTS OF
PRODUCTION AND MARKETING OF LEATHER PRODUCTS IN
DEVELOPING COUNTRIES, AND CO-OPERATION MEASURES
WHICH COULD BE ENVISAGED BETWEEN
DEVELOPING AND DEVELOPED COUNTRIES *

Prepared by
the secretariat of UNIDO

Note: This issue paper is based on the background paper on
"Production and Marketing of Leather Products in Developing
Countries: Problems and Prospects" by B. Gudián and ITC's
paper on "Export Marketing and Distribution of Leather and
Leather Products in Developing Countries".

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ISSUE NO. 2: Problems and Prospects of Production and Marketing of Leather Products in Developing Countries, and Co-operation Measures which could be envisaged between Developing and Developed Countries

Introduction

1. The consumption of leather and leather products is linked to the standard of living. The consumers in the developed countries are the focal point of both production and consumption. (See Table 1). Export volume of these countries was almost entirely with other developed countries and the exports of developing countries were also directed to the developed regions, primarily North America.

2. Although the total foreign trade position of the developing countries grew sharply, generalization on the score is fallible. Examination reveals that the greatest part of the increase was concentrated in a few countries. Moreover, a single foreign market, the U.S., has been the prime target of trade expansion by the developing countries (Diagram 4).

Major constraints

3. For the next few years, supply of raw materials will be the dominant problem of developing as well as the developed countries. Countries favoured by adequate available supply will be able to sustain output of leather products and exploit market developments in foreign trade. The countries which must compete for scarcer raw material supply will encounter serious problems in maintaining output and sales reached by 1978.

4. The countries in Africa face serious problems in the development of indigenous leather industry. The quality of available raw materials supply is one of the major bottlenecks in the development of the leather products industry. Unless this situation is improved, Africa will continue to play a minor role in the leather products industry. In resource-rich African countries, lack of effective manpower training, technical know-how and marketing intelligence continues to retard the growth of the leather industry and full utilization of factory capacities (Ethiopia, see Diagram 5).

5. In Asian countries, with adequate resource endowments, the problems are different. The main constraint continues to be in the full utilization of the supply of raw materials for leather products. Considerable amounts of semi-finished leather are still exported. India, Pakistan, Thailand, Bangladesh and Sri Lanka will be able to increase their export of leather products. However, this will depend mainly on their ability to overcome current problems relating to manpower training, technical know-how and export promotion and marketing of leather products (see Diagram 5).

6. South America is the developing region where no major constraints to the development of the leather products industry exist; it is the region with the brightest prospects for growth in output of leather products. Cattlehide supply in Brazil and in temperate South America are abundant and will probably increase in coming years. Modern facilities exist for production of leather and leather products. Both manufacturing and marketing expertise have been developed, and an industrial labour force exists in most countries of the region. The future status of South America as a centre of leather products industry looks bright (see Diagram 6).

View of Industrialized Countries

7. The share of the Leather and Leather Products Industry in the industrialized market economy countries is estimated to represent on an average less than 1 per cent of the GNP. Current employment trends in the industry - as shown in Table 2 - illustrates the trend of declining industrial activity in tanning, footwear and other leather products industry in most of the countries. With the exception of Italy and Spain, the industrialized countries are gradually phasing out of the tanning, footwear and other leather products industry. At the same time, these countries have become net exporters of raw material to the developing countries.

8. However, it has been claimed by some developed countries that the developing countries' exports of leather and leather products is having a detrimental influence on the leather products industries in most of the developed countries. The actual situation is quite different. Diagrams 1 and 2 illustrate that the bulk of the developed countries' imports was from other developed countries.

9. Diagram 3 shows the impact of structural changes in the apparent consumption of leather footwear in selected industrialized countries from 1960 to 1975. It illustrates two significant developments (1) the tremendous increases in production and export of leather footwear from Italy and Spain and (2) the proportionate decline in production and significant rise in imports into the United States of America, Federal Republic of Germany and Sweden - countries chosen as typical examples. The Second Consultation may therefore confirm that the changes in the condition of the leather products industries in industrialized countries were primarily due to internal structural changes.

10. Sweden, Canada and Australia are the first developed countries to have formulated adjustment assistance policies to their footwear sector taking into account the comparative advantage of imports. The United States Department of Commerce is now in the process of developing a footwear industry revitalization programme which is also likely to provide adjustment assistance to the footwear sector. Thus while some industrialized countries are facing up to the structural changes in leather products industries, others are not.

11. The situation of the CMEA Countries are not covered in this paper because they declined to supply country specific data on production, consumption and trade. What is the policy of the CMEA Countries toward the developing countries in the leather and footwear sector?

The Newly Industrialized Countries (NIC's)

12. A recent OECD report^{1/} shows that from 1970-1977 the NIC's increased their share of OECD imports in leather, travel goods and footwear (SITC 61, 83, 85) from billion \$0.4 to \$2.9 C.I.F. which represents roughly about 30 per cent of the total OECD market. The NIC's can be considered as "developed" countries in this particular sector by other developing countries who are struggling to establish a leather products industry (e.g. Ethiopia and Sudan in Africa).

13. There is little or no co-operation between the NIC's and other developing countries in the production and marketing of leather products including assistance in the area of technology, training and financing.

1/ The Impact of the Newly Industrializing Countries on Production and Trade in Manufactures. Report by the OECD Secretary General (1979) Page 66.

Industrial Adjustment and Redeployment

14. It has long been recognized that some developed countries have already initiated a gradual process of adjustment and of redeployment in the leather and footwear industries. There appears to be little or no recognition of the fact that the increase in industrial production in the leather and footwear sector in developing countries can only be restricted at the expense of higher consumer prices and growing inefficiency of production in developed country economies.

15. It must be recognized that there will be substantial short-term and medium-term costs to individuals, social classes or regional groups, firms and governments in adjusting to a new international division of labour. However, the real question is not whether structural changes are taking place; they are indeed taking place in the leather and footwear sector. The real question is whether these changes could be orderly, whether their pace could be quickened, and whether the pains of transition could be eased through mutually beneficial negotiations and consultation rather than through rising protectionism.

16. Redeployment in the leather and footwear industries should be seen as a part of a process designed to promote the transfer of technology to developing countries and for the necessary training and experts' services, and should not be used as a pretext for obtaining access to abundant and low-paid manpower or for transferring obsolete technologies in leather and footwear industries.

17. The conflicts of interests and philosophy between the developed and the developing countries must be harmonized, since some of the conflicts that seem to frustrate agreement on such questions as stabilization of raw material supply and prices, marketing and development of the leather products sector in the South and growing protectionism in the North are more apparent than real conflicts. These could be overcome or eliminated through a better understanding of long-term gains which could accrue to all the parties from effective international action.

Conclusion and Recommendation

18. From the UNIDO Secretariat point of view it is quite clear that further processing of raw material in the developing countries is essential and feasible, particularly in the least developed countries.

19. In the view of the UNIDO Secretariat, redeployment of leather and footwear industries from developed to developing countries is necessary to achieve the Lima target by the year 2000. On the one hand, developed countries must assist in the transfer of resources and access to their markets in leather and footwear industries to developing countries. On the other hand, the developing countries must be prepared to reciprocate by providing security of investment to their developed country partners and ensure that the standard and quality of leather and footwear would not suffer from such redeployment.

Table I.

Rough estimates
in rounded
figures.

Region/ Selected countries	A. The Main Raw Material.						B. Production.						C. Production/Trade.									
	Million	FINISHED LEATHER (+)			Apparent Consumption		LEATHER PRODUCTS Utilized Leather in				by Million m ²		FOOTWEAR in NUMBERS						All kinds			
		Million m ²		Imported	Million m ²	m ² per Caput	Foot-wear	Garment	Hand-bags	Travel Goods	Other Products	IN TOTAL	L: Upper made of Leather			NL: Completely Non-Leather			Apparent Consumption			
		Production	Exported										Production L	Exported L	Imported L	Production NL	Exported NL	Imported NL	Million Pairs L	Million Pairs NL	Million Pairs L+NL	Per Caput
1 DEVELOPING	2 906	144	26	13	301	0.1	184	53	34	8	22	301	1150	2630	100	800	50	0	1160	1630	2790	1.10
2 America	330	120	20	5	105	0.3	70	2	14	3	6	105	400	420	45	0	15	0	370	420	790	2.6
3 Argentina.....	28	20	5.0	0	14.5	0.6	8.5	3.0	2.7	0.8	1.0	14.5	35	75	2	0	0	0	33	75	108	4.2
4 Brazil.....	116	46	9.5	1.0	37	0.35	27	2.1	5.2	0.7	2.0	37	160	190	30	0	0	0	130	190	320	2.8
5 Uruguay.....	3	6.5	3	0.2	3.7	1.25	1.7	2.1	0.4	0	0.1	3.5	6	1.2	2.7	0	0	0	3.3	1.2	4.5	1.8
6 Africa	200	21.5	0.7	0.2	21	0.05	13.5	0.7	4.4	1.1	1.3	21	90	110	5	0	20	0	105	110	215	0.8
7 Morocco.....	18	4.2	0.2	0	4.0	0.25	1.3	0.1	1.2	0.8	0.6	4.0	9	3	0	0	0	0	9	3	12	0.8
8 Egypt.....	38	6.3	0.3	0.1	5.9	0.15	4.4	0.5	0.7	0.1	0.2	5.9	18	22	2	0	0	0	16	22	38	1.1
9 Ethiopia.....	30	0.4	0	0	0.4	0.01	0.4	0	0	0	0	0.4	1.5	3	0	0	0	0	1.5	3	4.5	0.2
10 Mali.....	6	0.1	0	0	0.1	0.02	0.1	0	0	0	0	0.1	0.5	0	0	0	0	0	0.5	0	0.5	0.1
11 Nigeria.....	80	3.7	0.1	0	3.6	0.05	2.2	0	1.0	0.1	0.3	3.6	7.5	23	0	0	5	0	13	23	35	0.4
12 Tunisia.....	16	0.3	0	0	0.3	0.02	0.2	0	0	0	0.1	0.3	1.8	4.7	0	0	0	0	1.8	4.7	6.5	0.4
13 Asia	2 160	202	35	8	175	0.08	100	40	16	4	15	175	660	2150	50	510	15	0	625	1640	2265	1.1
14 Indonesian....	17	0.4	0	0	0.4	0.02	0.3	0	0.1	0	0	0.4	1.0	7	0	0	0	0	1	7	8	0.5
15 Iran.....	35	8.5	0	0	8.5	0.3	7.0	0.5	1.0	0	0	8.5	50	60	10	0	0	0	40	60	100	3.1
16 Bangladesh....	80	0.7	0.1	0	0.6	0.01	0.5	0	0	0	0.1	0.6	3.0	2	0	0	0	0	3	2	5	0.1
17 India.....	632	69	34	0	35	0.06	29	2.0	3.0	0	1.0	35	260	90	14	0	0	0	246	90	336	0.6
18 Indonesia.....	134	2.8	0.1	0	2.7	0.02	2.0	0	0.6	0	0.2	2.8	10	80	0.3	0	0	0	13	80	93	0.7
19 Korea, Rep. of	36	18	0.1	3.6	21.5	0.6	2.8	10.5	3.5	0.2	4.5	21.5	14	290	11	240	0	0	3	50	53	1.6
20 China.....	920	38	0.1	0.2	40	0.05	17	12	3.0	0.5	5.5	40	70	800	1	50	0	0	70	750	820	0.9
21 Oceania	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22 DEVELOPED	2 140	796	97	140	839	0.7	535	45	114	6	139	839	2200	2110	530	240	550	10 0	2250	2910	5160	4.8
23 America	215	100	18	27	109	0.45	64	10	9	1.0	25	109	260	280	10	1	180	30	240	530	1060	4.8
24 USA.....	220	85	16.5	19	88	0.4	50	8	7	1.0	23	88	235	270	8	1	170	20	390	560	950	4.7
25 Europe	740	656	74	107	689	0.9	448	30	96	5.0	110	689	1835	1625	510	215	360	6 0	1635	2050	3725	2.4
26 Germany Fed R.	67	55	11.5	23	67	1.1	34	2.0	18	1.0	12	67	78	38	14	7	95	75	159	105	265	4.3
27 Italy.....	50	150	13	28	165	2.9	110	0.5	32	2.0	20.5	165	250	115	175	90	1.7	12	73	37	110	2.8
28 FR.....	56	40	16	8	32	0.6	15	3.8	5.9	0.6	6.7	32	76	85	13	8	30	75	93	152	245	4.4
29 Sweden.....	8	5.0	2.9	3.2	5.3	0.7	3.5	0.8	0.6	0	0.4	5.3	2.7	10	0.4	6	9	14	11	18	29	3.6
30 N.W.....	259	160	0	9	169	0.7	144	10	10	0	5.0	169	750	410	2	2	80	45	828	453	1280	5.0
31 Czechoslovakia	15	12	0	0	12	0.8	10	1.0	0.8	0.1	0.1	12	63	65	30	24	2.6	1.0	36	42	78	5.2
32 Africa (PSA)	27	5.0	0.4	2.6	7.2	0.3	5.2	0.2	1.2	0	0.6	7.2	35	10	-	0	10	0	45	10	55	2.3
33 Asia (Japan)	111	22	2.4	2.2	22	0.2	10	5.0	5.0	0	2.0	22	50	180	10	14	12	10	52	126	230	2.3
34 Oceania	17	11.2	1.8	0.8	12.2	0.7	7.5	0.3	2.7	0.1	1.6	12.2	20	15	0.5	0	18	10	37	0	69	2.5
35 Australia.....	14	11.0	0.4	0.4	11.0	0.8	6.8	0.2	2.4	0.1	1.5	11.0	16	11	0.3	0	16	9	32	20	52	3.7
36 WORLD	4 340	1140	153	153	1140	0.27	719	98	148	14	161	1140	3350	4790	630	1030	630	1030	3350	4790	8140	2.9

(+) Including Heavy (Sole) leather, usually sold by weight. Hides and skins of cattle (including bull loes), sheep and goats only. No pig or other domestic or wild animal skins.

Table II. Leather and Leather Products Industry

THE STRUCTURE OF EMPLOYMENT IN DEVELOPED COUNTRIES

('000 employed)

COUNTRY	TANNERIES			SHOE FACTORIES			OTHER PRODUCTS		
	1965	1975	1985*	1965	1975	1985*	1965	1975	1985*
Germany	9	7	7	96	72	50	14	12	10
Belgium and Luxemburg	3	2	2	12	6	5	2	2	2
Denmark	2	2	2	5	4	3	2	2	2
France	7	6	6	78	73	65	23	21	20
Ireland	1	1	1	4	6	7			
Italy	9	12	13	110	125	115	17	19	19
Netherlands	4	2	2	14	8	8	2	2	1
United Kingdom	12	10	10	66	47	50	16	14	13
SUB-TOTAL EEC	47	42	43	385	341	303	76	72	67
Austria	1	1	1	11	11	8	2	2	1
Spain	9	11	12	45	82	97	7	8	8
Finland	1	1	1	5	4	4	1	1	1
Greece	1	1	1	13	13	18	2	2	2
Norway				3	2	2	1	1	1
Portugal	3	3	4	12	14	10	2	2	2
Sweden	1	1	1	5	3	3	2	2	2
Switzerland	4	3	3	10	6	5	3	3	3
Turkey	2	2	2	7	8	12	1	1	1
SUB-TOTAL OECD IN EUROPE	69	65	68	496	484	462	97	94	88
Canada	5	4	5	23	17	21	4	4	2
United States	28	23	23	228	187	190	73	72	60
Japan	19	24	15	43	46	40	9	10	7
New Zealand	1	1	2	3	5	6	1	1	1
Australia	3	4	4	36	15	17	3	3	3
TOTAL OECD	125	121	117	829	754	726	187	184	162

Source: UNIDO Secretariat Report of the Eminent Consultants on World-Wide Raw Material Availability and Quality of Supply. Submitted to the Leather Panel at its Second Session, 5-7 February 1979.

* Estimate.

DIAGRAM 1

IMPORTS into 18 industrialized countries.

(Australia, Austria, Belgium/Luxembourg, Canada, Denmark, Finland, France, F.R. Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, UK and U.S.A.)

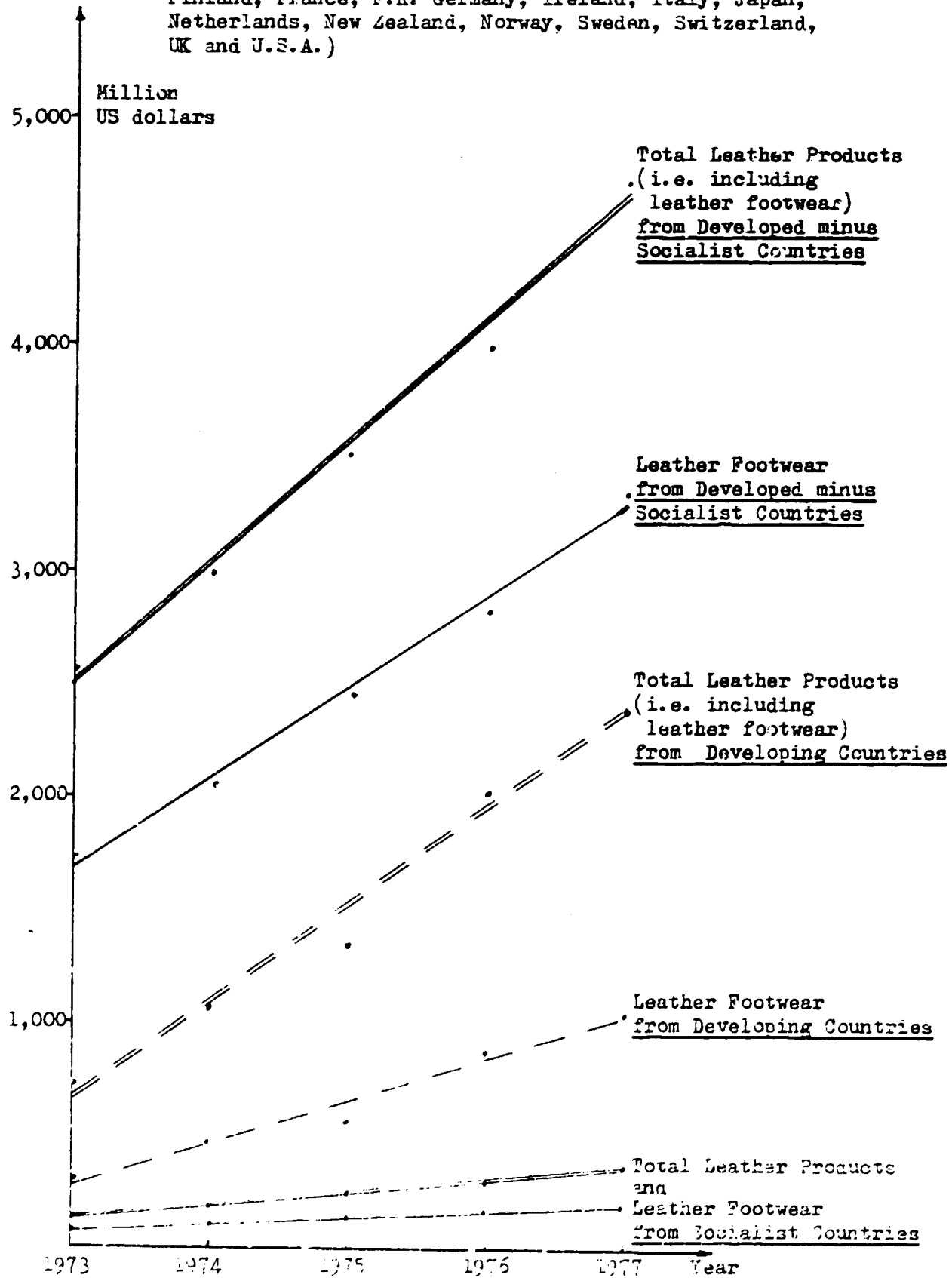


DIAGRAM 2

IMPORTS of Leather Products into 18 Industrialized Countries

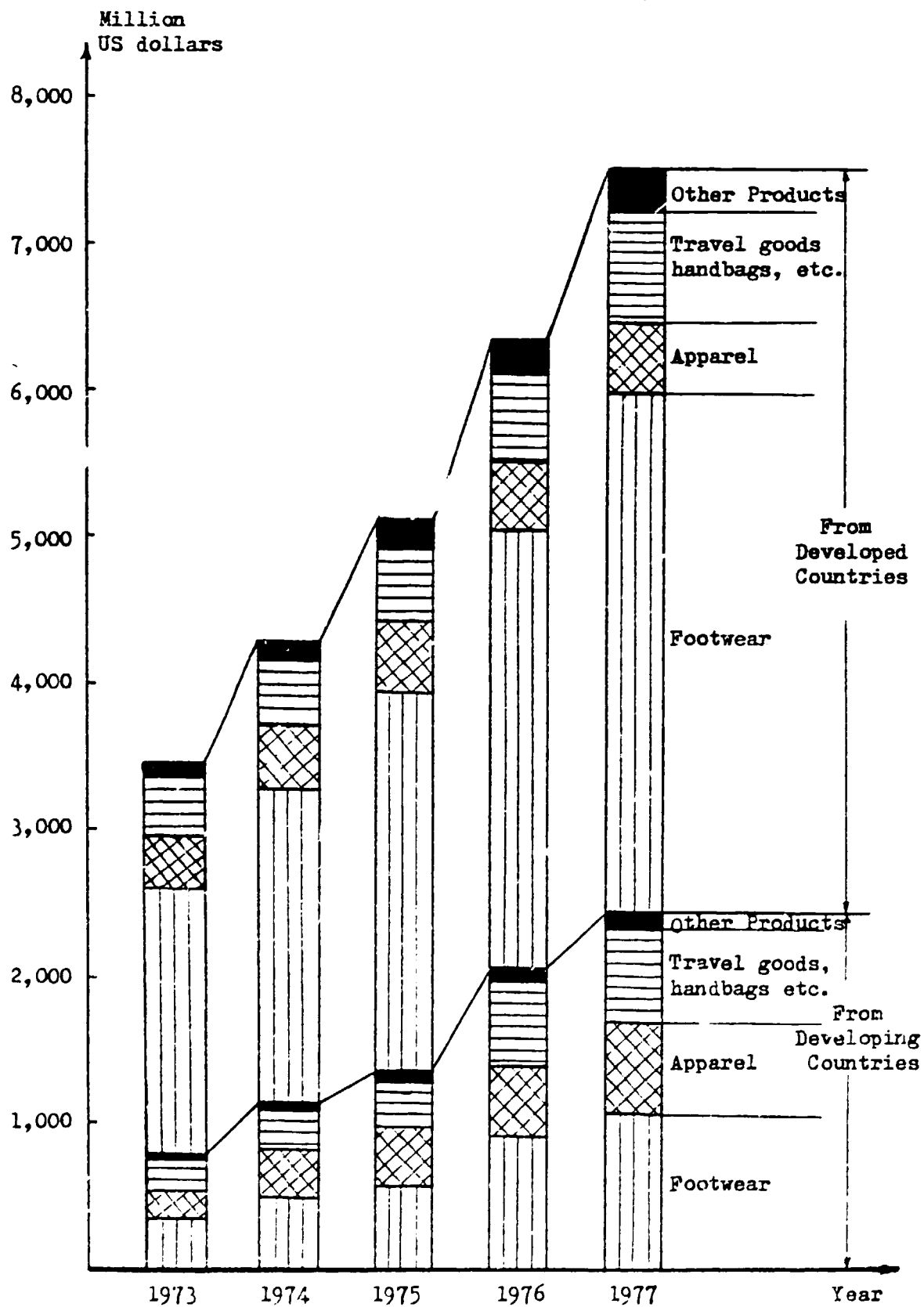


DIAGRAM 3

Leather Footwear

Trade Balances for selected Industrialized Countries

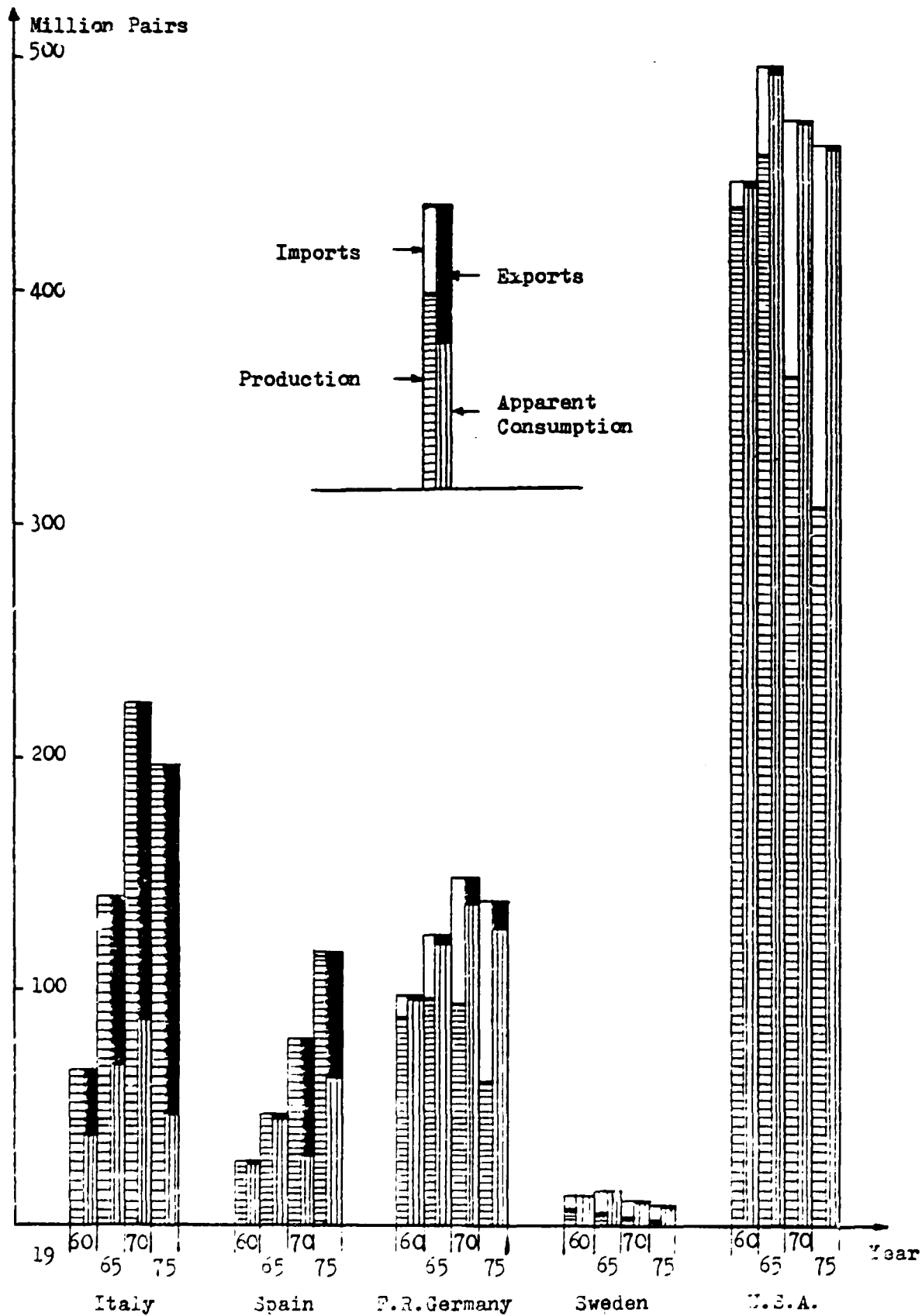
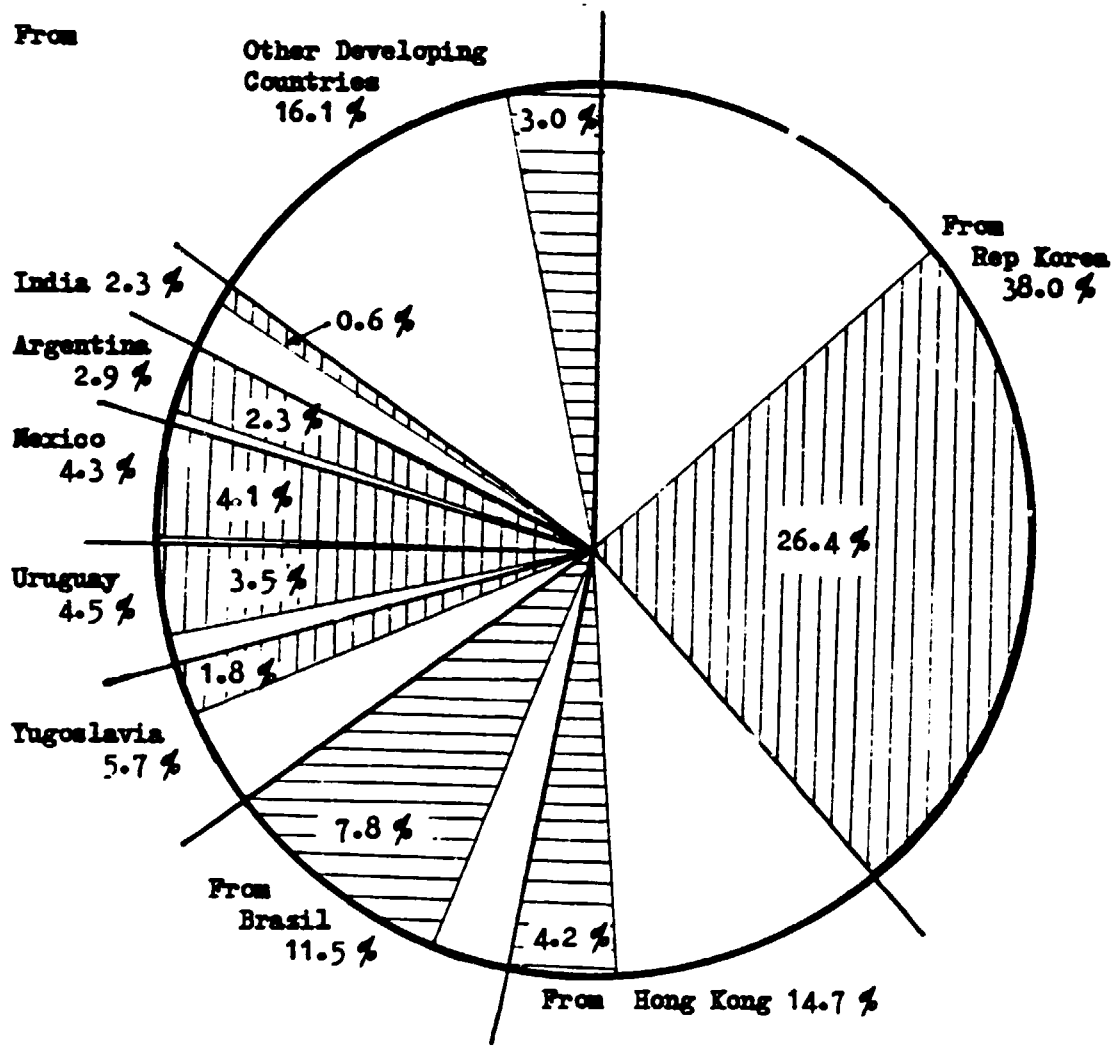


Diagram 4

Leather Products Exports

from Developing Countries into 18 Industrialized Countries

Shaded areas: Imports into USA



From All Developing Countries

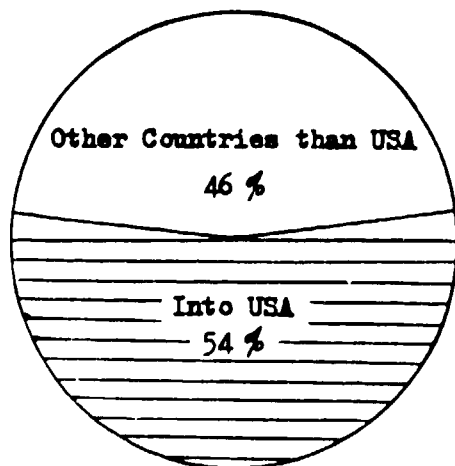
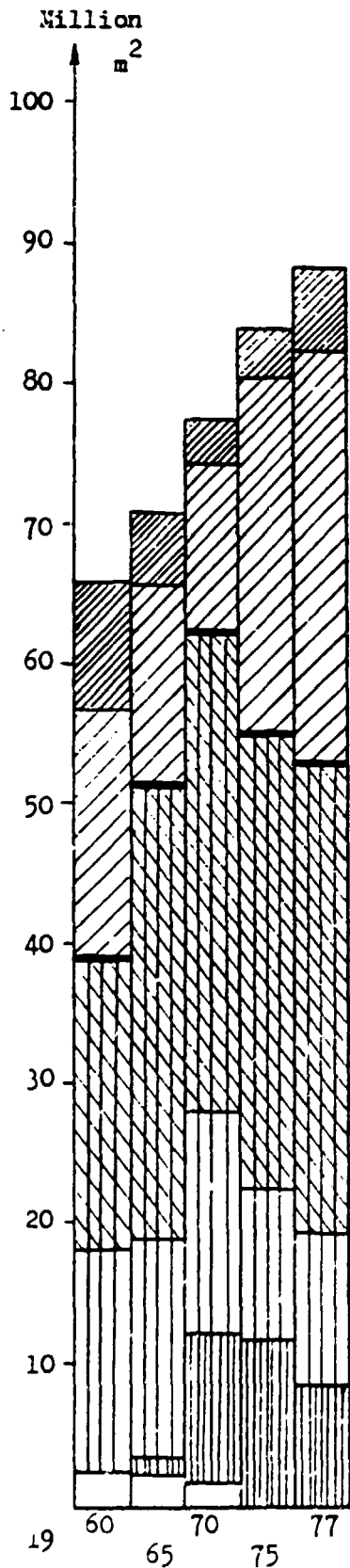


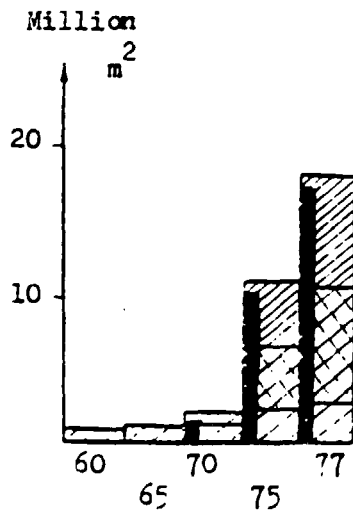
DIAGRAM 5

Estimated Use of Total Hide and Skin Resources

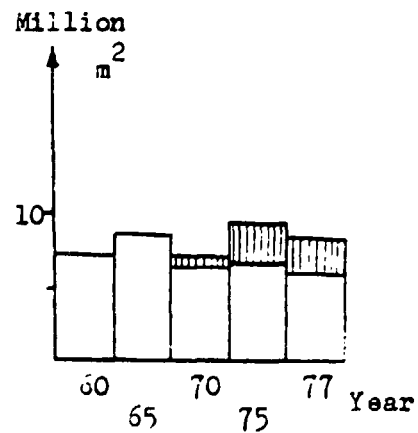
India, Republic of Korea and Ethiopia



India



Republic of Korea



Ethiopia

Legends:

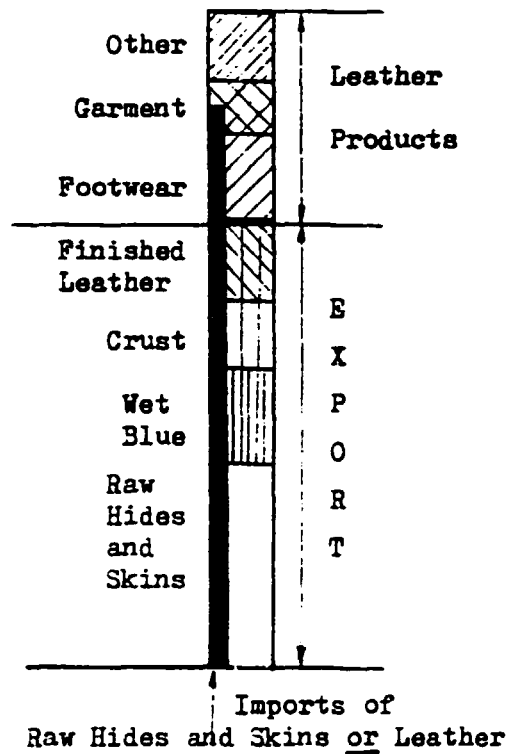
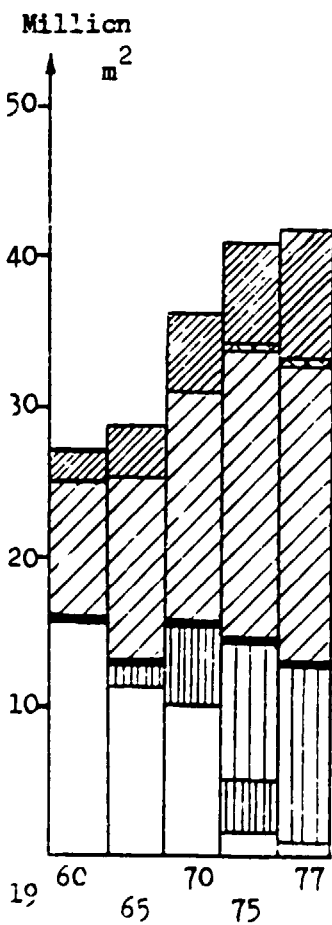
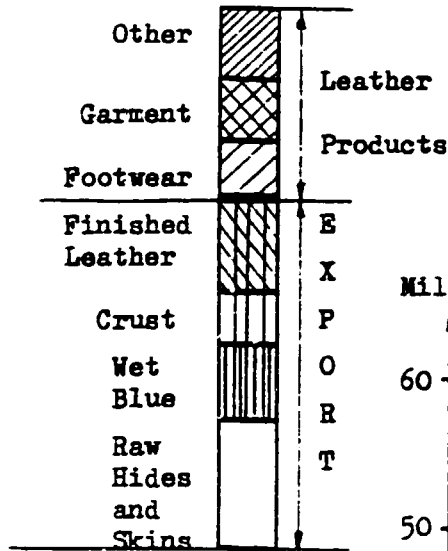


DIAGRAM 6

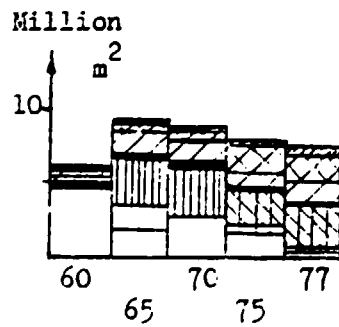
Estimated Use of Total Hide and Skin Resources

Brazil, Uruguay and Argentina

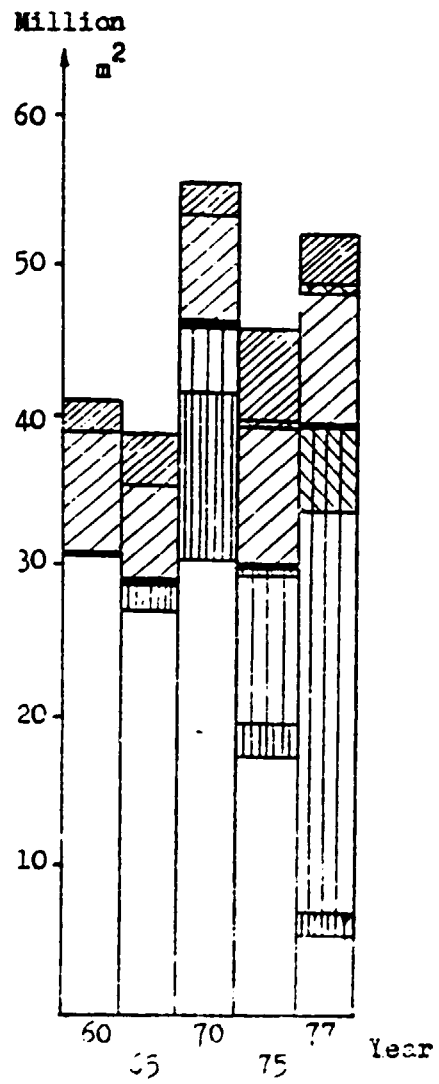
Legend:



Brazil



Uruguay



Argentina

Suggested Points for Discussion

ISSUE NO. 2: PROBLEMS AND PROSPECTS OF PRODUCTION
AND MARKETING OF LEATHER PRODUCTS IN
DEVELOPING COUNTRIES, AND CO-OPERATION MEASURES
WHICH COULD BE ENVISAGED BETWEEN
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1. From the UNIDO Secretariat point of view, it is quite clear that the Leather and Leather Products Industry is one of the few industries which has been relatively well established, in the developing countries. On the other hand, the contribution of the sector to the economies of the developed countries seem to be minimum. The question is to what extent can the leather and leather products industry be progressively transferred to the developing countries bearing in mind the strategic requirements of the developed countries as stressed in the First Consultation?
2. In the event of an affirmative answer, what are the conditions for such a transfer of capital and resources and diversification of supply?



