

European Communities

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EUROPEAN PARLIAMENT

# Working Documents

1983 - 1984

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16 December 1983

DOCUMENT 1-1157/83

## Report

drawn up on behalf of the Committee on External  
Economic Relations

on the crisis in the tanning industry

Rapporteur: Mr R. GAUTHIER

PE 83.672/fin.

0c. Fr.



At its sitting of 15 November 1982, the European Parliament referred the motion for a resolution tabled by Mr PATTISON and others (Doc. 1-840/82) pursuant to Rule 47 of the Rules of Procedure to the Committee on External Economic Relations as the committee responsible and to the Committee on Economic and Monetary Affairs and the Committee on Social Affairs and Employment for opinions.

At its meeting of 14 June 1983 the Committee on External Economic Relations decided to draw up a report and appointed Mr R. GAUTHIER rapporteur.

The committee considered the draft report at its meetings of 22/23 June 1983, 2 November 1983, 23 November 1983 and 2 December 1983. At the last meeting it adopted the motion for a resolution unanimously.

The following took part in the vote : Sir Fred CATHERWOOD (chairman), Mr ALMIRANTE, Mr BONACINI, Mr COHEN (deputizing for Mr RIEGER), Mrs GREDAL (deputizing for Mrs WIECZOREK-ZEUL), Mr MAHER, Mr MOMMERSTEEG, Mrs Louise MOREAU, Mr PELIKAN, Mr RADOUX, Mr SEELER, Mr SPENCER and Mr ZIAGAS.

The Committee on Social Affairs and Employment decided at its meeting of 17 June 1983 not to deliver an opinion.

The opinion of the Committee on Economic and Monetary Affairs is attached.

The report was tabled on 6 December 1983.

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The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement :

A

Motion for a resolution  
on the crisis in the tanning industry

The European Parliament,

- having regard to Articles 103 and 113 of the Treaty establishing the EEC,
  - having regard to the motion for a resolution of 11 November 1982 tabled by Mr PATTISON, Mr TREACY and Mr CLUSKEY pursuant to Rule 47 of the Rules of Procedure on the crisis in the tanning industry (Doc. 1-840/82),
  - having regard to its resolution of 9 March 1982 on the situation in the European footwear industry,
  - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Economic and Monetary Affairs (Doc. 1-1157/83),
  - having regard to the possibility of a restructuring of the industry similar to that carried out in Italy,
  - aware that the tanning, leather goods and footwear industries are closely linked,
  - aware of the particular importance of leather-tanning in certain regions,
  - aware in particular of the jobs already lost and of the threatened redundancies,
  - aware of the new nature of the competition offered by leather exporting countries and reaffirming that any measures to be taken by the Community must be in accordance with the provisions of the GATT and must not violate the principle of freedom of trade,
  - anxious to contribute at all levels and within all possible fields to the improvement of economic conditions within the Community,
1. Calls on the Commission to check carefully whether any dumping is taking place in this sector and requests it to take action, if necessary, against such practices;

2. Requests the management of European undertakings to rationalize them as far as possible to improve the environment and job prospects;
3. Acknowledges that the current crisis in the tanning industry is largely due to the sudden fall in the number of skins available caused partly by the restrictions placed on the import of skins by countries which traditionally supply them, such as Brazil, and partly by the high prices paid for Community-produced skins by non-Community buyers, especially the Soviet Union and Japan, so as to obtain supplies for their leather and footwear industries;
4. Therefore requests the Commission to make its views known to the governments of supplying countries for the purpose of obtaining a reduction of these import restrictions on skins;
5. Calls for the Commission, in addition, to prompt the Japanese Government to reduce its tariffs on imported shoes and leather goods so as to be more in line with the Common Customs Tariff and to provide better access for competing Community products in view of the great trade deficit between the Community and Japan;
6. Hopes that in cases where national aid programmes exist these will not distort the nature of competition within the Community and will comply with the provisions of the Treaty establishing the European Economic Community relating to aid (Articles 91 and 92);
7. Hopes that a Community nomenclature will be rapidly introduced so that the respective classifications of each country can be harmonized;
8. Requests that the possibility of concluding an international agreement to stabilize leather prices be considered, in the interests both of developing countries and of the Community;
9. Instructs its President to forward this resolution to the Commission, Council and Member States.

## B. Explanatory Statement

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### Specialist vocabulary of the industry necessary for understanding the technical aspects of the report

- Pre-tanning : Process which eliminates the need to cure skins.
- Wet blue leather : A chrome-tanned leather which undergoes no other processing and is sold in the wet state.
- Tanning : Process to prevent skins from rotting.

#### For cattle:

- Splitting : Cutting leather into layers.
- Full grain : Fine product (high grade).
- Corrected grain : Product which requires treatment to attain a quality which can sometimes approach that of full grain.
- Crust : Thick and rigid material (used for example in the manufacture of satchels for schoolchildren).
- Rough crust leather : (Leather which has not been fully dressed, but simply dried). The term 'crust leather', also used in the leather manufacturing industry, has two senses which should not be confused: it is used to describe either the leather made from a crust (for instance: the crust of a pig) or one of the flesh splits (layers) obtained by the process known as splitting.
- Raw hide : Outer skin of an adult animal or of the larger species. It should be noted that this term has a wider meaning in some countries than in others; thus in France, the word is applied solely to the hide of adult cattle, in Germany, it covers that of cattle, horses, pigs and hogs, reptiles, fish and birds, while in Italy all animal outer skin is called raw hide. This gives rise to great difficulties in the interpretation of statistical data.
- Finished leather : (and semi-finished leather). This can be made from a hide or skin which has been split into layers or cut into pieces, either before or after tanning. However, if a tanned hide or skin has been broken down by a mechanical and/or chemical process into fibrous

particles or powder, and is then reconstituted, with or without a binding agent, into sheets or any other form, the resulting product cannot rightly be called leather.

1. Tanning, a worldwide industry

A. Production

(a) The heterogeneous nature of production

Hides and skins are by-products of stockbreeding. In fact, of those hides and skins which are ultimately treated in industrial processes none is specifically produced for that purpose.

Supply is thus apparently independent of demand, although increasing prices may encourage more effective techniques in the preservation of hides after slaughtering and more systematic collecting procedures.

The properties of hides and skins vary a great deal, depending on species, climatic conditions and farming methods. As far as tanning is concerned, the properties are also determined by the treatment applied and the conditions existing both before and after slaughtering.

Parallel to the variety of raw materials are the great number of treatments which can be applied to them and the wide range of properties which characterize finished leathers. As a result, there is a high degree of interchangeability among what might seem to be different raw materials.

- Finished cattle and calf hides: hides sold by weight

The slow fall in production has continued in recent years except, for fashion reasons, for 1976 and 1979. This trend affects all the Member States except Italy.

- Finished cattle and calf hides: hides sold by size

The situation varies from country to country:

- FEDERAL GERMANY: comparatively stable production pattern (20 to 22 million m<sup>2</sup>)  
FRANCE: the situation has worsened since 1979, mainly because of pressure from imports (Italy, Brazil, Argentina, etc.)  
ITALY: overall stability in calf hides; 12 to 14 million m<sup>2</sup> in cattle hides, rapid expansion till 1979, substantial fall in 1980-1981

NETHERLANDS: comparative expansion till 1977; thereafter, after a 10 to 15% fall, stabilization at 3 million m<sup>2</sup> per annum

BELGIUM: steady drop in production with slight upturn in 1981

UNITED KINGDOM: production levels of approximately 20 million m<sup>2</sup> maintained till 1979; thereafter, a drastic fall owing to the slump in domestic consumption

IRELAND: constant fall in production since 1976 (production cut by half in 5 years) owing to a substantial drop in exports (to the British market) and falling demand on the domestic market

DENMARK: constant fall in production, mainly due to domestic market factors.

(b) The nature of demand

Throughout the world, footwear remains the principal application of leather (probably of the order of two thirds), even though in recent years this domination has fallen in absolute terms and changed in nature.

Income elasticity of demand for leather shoes declines as income rises. Consequently, while rich countries consume more leather shoes per person on average, it is in the poorer countries that per capita consumption is increasing most rapidly.

The impact of this phenomenon has been all the more marked in the richest developed countries owing to the inroads made in the market by synthetic materials, particularly for soles. The changes on the US market provide a good illustration of this point, although the precise effects of this phenomenon have varied from one country to the next.

Over the last twenty years in the United States, the leather content in footwear has moved from over 80% to somewhere around 55%, whereas total leather consumption per person has remained more or less constant. In the course of this period, leather has become a fashionable material (to a large extent in the upper reaches of the market) in virtually all its applications, as much in footwear as in rapidly expanding sectors such as clothing.

In poorer countries, footwear, generally of a utility nature, remains the principal market for leather, with demand highly sensitive to increases in income.

There are, however, other applications which should not be overlooked and which provide good outlets for tannery products: items of clothing, fancy leather goods, furnishings, glove-making, saddlery, strap manufacture, etc., not forgetting chamois leather.

(c) Synthetic substitute products

There are two types of synthetic material found on the same markets as leather:

- Sheets of plastic material and/or treated fabrics;
- Materials permeable to water vapour (poromers).

The products in the first category cannot be considered as leather substitutes, since they possess none of the inherent qualities of leather in the matter of comfort or appearance. More specifically, in the markets of poor countries, cheap plastic shoes satisfy a need which could not have been met otherwise; consequently, these articles can be regarded as complements, rather than rivals, to leather shoes.

Materials such as poromers which are permeable to water vapour have not so far been able to compete against leather with any degree of success: the performance/cost relationship has been to their disadvantage. There is nothing to indicate an early breakthrough in their development; nevertheless, research work is continuing.

(d) The transfer of processing industries

Tanning is primarily a high-technology sector requiring substantial investment and using up sizeable financial resources. The geographical distribution of the activities of the tanning and leather goods industries has changed considerably over the last fifteen years. The most characteristic feature of such change is the movement of these industries away from the regions close to their traditional markets towards locations which have more favourable production costs. The advantages offered could take the form of low wage bills and/or less restrictive anti-pollution laws as well as, in some cases, direct or indirect government subsidies, when the public

authorities were seeking at all costs to encourage the treatment of raw hides and skins of local origin.

In general, the traditional tanning and footwear industries have seen a reduction of one third or even more in the volume of their production. Activities initially shifted from North America to Mediterranean countries, chiefly Italy and Spain. In subsequent years, the transfer continued, this time to the Far East and Latin America.

The trade flows with Third World countries have consequently been reversed; they have begun to import raw hides and skins from developed countries and ship them back in the form of finished products.

As a result of these changes, together with the trend towards self-sufficiency in the Soviet Union, worldwide tonnage capacity has moved into considerable surplus (possibly as much as 50%) in relation to the raw skins and hides available. In addition, investments to increase production capacity in low-wage countries are largely aimed at conquering the rich markets of North America and Western Europe.

B. Demand and prices

- Demand structure

(a) Consumer demand in developed countries with a market economy

In these countries, where the consumer is king, any appreciable increase in the demand for leather will depend on its ability to attract, by virtue of its intrinsic qualities, a greater portion of purchasing power towards a range of clothing and personal articles. As far as can be judged at the moment, synthetic materials come nowhere near to matching the particular qualities of leather in the areas of 'feel' and comfort, or at least will not do so for a long time. On the other hand, consumption per person of leather footwear is unlikely to increase significantly in comparison with the present level, for as long as slow population growth persists.

One can logically expect that consumption per person in the United States will remain at its current level (it has remained stable for several years), creating a very slow growth in the total market in proportion to population growth over the next ten years.

In Western Europe, further growth in income, if this occurs, should bring consumption up to the American level. There is nothing in these markets to indicate that leather might lose its current position.

In this context, the apparent lack of sensitivity to price is of particular importance in many sectors of the market, including the footwear sector. Fashion might have a more decisive influence than variations in income on momentary changes in consumer behaviour.

(b) The centrally planned economics of the CMEA

Although consumer needs are not totally ignored in the decision-making processes of the CMEA countries, planning does seem to follow its own logic. It is evident that one of the targets of the current Soviet economic plan is to increase personal footwear consumption and that every effort will be made to achieve this objective, regardless of supply difficulties. In addition, the fashion potential of leather has already begun to gain ground in the CMEA countries, and it can therefore be assumed that western consumption patterns will ultimately emerge.

According to the information available, the increasing consumer demand for leather will continue into the immediate future.

(c) Developing countries

As we have seen above, the act of grouping all the other countries of the world under the heading 'developing countries' tends to obscure wide-ranging differences in economic structure and potential which have a direct bearing on the place of these countries in the world leather economy.

Countries such as Argentina, Brazil, South Korea and Taiwan, for instance, have in the course of their rapid economic growth seen a gradual 'westernization' of their domestic markets.

The People's Republic of China and India, on the other hand, occupy a unique situation by virtue of their potential for economic growth.

However, all these countries are characterized by marked population growth, a very low standard of living and increasing aspirations in the matter of personal consumption.

In the developing world, and above all for its urban populations, shoes are of particular importance as a status symbol. The rate of growth in shoe consumption is at its highest among the lowest income groups.

It can thus be expected that any improvement in world living standards will generate a more intense demand for leather (in the form of shoes) in developing countries than in rich countries, where demand, although high, is less sensitive to income variations. It is obvious that the opposite situation would occur in the case of a world recession.

- Real demand

(a) Processing industries

International competition

The decline of traditional activities (tanning and footwear) within the leather sector in the majority of developed countries is referred to in other sections of this report.

Caused partly by changes in demand (less leather in footwear; more in clothing and personal articles), this decline has been provoked largely by competition from low-wage countries.

In the tanning industry, low wages are not in themselves sufficient to counterbalance low productivity and other costs which are normally higher in underdeveloped countries (chemical products, equipment etc.).

However, the establishment of a tanning industry (for cattle hide at least) has often followed that of a footwear industry and, when hides are produced locally, as in Latin America and India, public authorities have been able to subsidize the local tanning industry. This creates an excess of tanning capacity at world level.

Another argument in favour of restricting exports of raw hides and skins arises from the fact that subsidized foreign tanneries can force up the prices of raw hides to the point of effectively barring the local tanning industry from any kind of processing activity. This argument is most frequently put forward in the cases of Japan and South Korea - both large-scale importers - but it is also held to apply to Eastern European countries, whose governments have obtained a great deal of their supplies on Western markets. It is also said that the considerable excess tanning capacity (subsidized or otherwise) forces a situation in which the limited supplies of raw skins are sold to the highest bidder.

Although this argument may have some short-term validity, there can be no doubt that in the long term the price of raw hides is determined by what the final consumer (mainly on the free markets) is willing to pay for leather.

If the prices of raw hides are pushed beyond that level, then some other economic agent foots the bill.

For these reasons (and in the light of the existing agreements), we conclude that it is hardly probable that serious measures will be taken by the OECD countries with a view to limiting exports of raw hides or imports of tanned hides or manufactured articles (except on a temporary basis).

The method of subsidy consists of limiting exports of raw hides. The local prices then fall and the tanners can put their products on the markets of developed countries at dumping prices. The subsidy is therefore indirect.

However, there is also a tendency to restrict exports of finished leathers, in order to increase the local added value and at the same time help local footwear and clothing manufacturers to export their production onto the markets of developed countries.

Nevertheless, leather consumption in Western Europe as a whole (and the major European countries) far exceeds its raw hide production.

If the current market trends in the developed countries persist into the immediate future, supplies will be even more limited for poorer countries, faced with meeting the needs of a growing population.

(b) Dominant tendencies on the hides and skins market

The inelasticity of the supply of raw hides and skins is of course the principal cause of price instability. In the past, it was also the reason for the persistently low prices of raw hides, when highly inflexible markets had to absorb growing quantities of goods, the by-products of increased meat production. This phenomenon was evident throughout the 1960's and continued until 1972.

Consequently, the producers of raw hide and the consumers of footwear and leather goods throughout the world act on interconnected markets. The recent rally in the price of raw hides and skins is the result of an increased preference for leather on all the major markets: North America, Western Europe and the Eastern bloc. The simultaneous decrease in supply has had the consequence of accentuating the reactions at the level of prices, but the findings of our study of these markets show that potential demand is high in almost all cases; it should probably hold up in the foreseeable future, even at price levels above those prevailing today.

To sum up for the period up to 1985, all the principal forecasts as well as

our own conclusions point to two dominant trends in the leather sector:

- Demand will remain high on the traditional markets for leather, for both footwear and other leather goods. Innovation within these markets will become increasingly important;
- There will be a marked fall in the volume of supply, which will improve only towards the end of the period.

We therefore expect to see the raw hides and skins market remaining at its present strength, probably with subsequent rises to take prices above their current level. Prices will also be unstable in the short term.

From the middle of the eighties, supply will probably increase on a substantial scale. If demand remains at its current level, the market could then weaken. However, it could safely be assumed at that time that demand from developing countries will become an increasingly important factor on the leather markets.

The potential demand for footwear in these countries is immense, and although the greater part of their needs would inevitably have to be met by synthetic materials, leather will none the less retain a significant market share.

Population growth projections for the end of the century show that the population will increase much more rapidly than the production of raw hides and skins; it is therefore likely that the pressure on supplies will intensify in the long term.

### C. The current supply and demand situation

#### (a) Production and processing

In the course of the last two decades, profound changes have thus occurred in the production of raw hides and skins, at the intermediate processing stage and in their end use. These changes have enhanced the international aspects of leather at all stages of the manufacturing process.

The radical changes imposed on the structures of the industry have created tension, both among the different stages of the manufacturing process and among the countries concerned.

## 1. Employment

Roughly 40% of the jobs in the tanning sector have been lost over the past twenty years.

### Number of workers in the tanning industry:

	<u>1960</u>	<u>1980</u>
D	28,000	7,250
F	13,000	10,002
I	18,800	28,500
NL	3,902	940
B	2,971	884
UK	27,000	10,500
IRL	2,000	900
DK	800	300
EUR 9	96,473	59,306

This downward trend has continued over the past 2 years and cuts have even been recorded in Italy. Employment is centred chiefly in the agricultural and non-industrial regions of the Community and there is a substantial concentration of tanning activities in such regions as Santa Croce, Arsigniano, Craulhet, Mazamet, Pirmasens, Naples, Limburg in Holland and Malmedy.

It should be noted that the centre of employment has shifted from the north of the Community to the south and this shift will become more pronounced when the Community of the Ten is enlarged to include Spain and Portugal.

The Community is dependent for its supplies from outside the Community on the free world, particularly other European countries, the United States, Canada, New Zealand and South Africa.

Some African countries export fairly substantial quantities of dried and/or semi-finished skins to the EEC.

A new trend is the importation of wet blue leather, mainly from the United States. Imports of semi-finished hides are of the order of 70,000 tonnes.

Exports outside the EEC are increasing. In the period 1974-1979 they totalled roughly 120,000 tonnes but they are currently going through a boom period:

1980	148,000 tonnes
1981	157,000 tonnes.

## 2. Tanning machinery and equipment

The Community is undeniably the leading producer of the widest range of tanning machinery and equipment. The Community tanning industry has no problems in this respect.

We should stress the link between these two sectors.

## 3. Supplies of other products

The Community tanning industry is prey to doubts over medium and long-term supplies of chromium. More than 90% of the industry is based on chromium, which is imported mainly from third countries such as the USSR, Zimbabwe and South Africa.

Research must be carried out within the Community to develop new techniques based on other products, such as aluminium.

The ban on imports on whale oil was a severe blow to the Community tanning industry as there are virtually no substitute products. As a result, the quality of some products has deteriorated.

The Community tanning industry is also facing competition from countries which have no rules or provisions concerning the environment. Compensatory import duties are called for.

This is the challenge facing us in the 1980s. Unless steps are taken, such as the restoration of free access to raw materials, there will be a massive decline in the Community leather sector as a whole.

This tension has at present reached such a pitch that in developed countries with a free market economy, intense pressure is being exerted by leather and leather goods manufacturers in order to obtain some degree of protection against the deadly danger represented by the aggressive competition from low-wage countries. However, in the present situation, the interests of all those active within the sector are far from being identical. The producers of raw hides, for instance, do not want restrictions imposed on their market, while national footwear manufacturers do not wish to see the local tanning industry profiting from an artificial restriction of the raw hide market, which would enable it to sell subsidized tanned hides at cheap rates to foreign manufacturers.

In addition, the leather industry is just one of the many industries (the textile industry is the most obvious case) which, attracted by the low wage bills in developing countries, are pulling out of developed countries on a massive scale. In all probability, governments will not deal with the problems of the leather industry, however complex, in isolation from their trade policy towards developing countries.

It should also be noted that the countries of Western Europe and North America are themselves major producers of the raw materials which they ultimately consume in the form of leather goods, although the OECD countries as a whole are showing a serious global deficit.

The producers of raw hides and skins occupy an important place within the economy of these countries; as a group they do not greatly care who processes their products, as long as they obtain the best possible price.

The principal interest of the producers of raw hides and skins is to derive maximum profit from the presumable evolution of supply and demand at world level, by exploiting to the full the most appropriate methods of marketing their products.

(b) The markets

Principle of the EEC's trade policy

The Commission attaches the greatest importance to maintaining and extending Community rules governing the internal market.

As things stand, there is a risk that Member States will turn inwards and adopt national measures running counter to Community rules, particularly in the following area:

Community demand will require a special quota of 12 million m<sup>2</sup> of finished hides (cow hides, not pig hides) in the initial period 1983-84 coupled with a substantial reduction in customs duty on cow leather.

Outlets

The Community produces every single type of leather.

The Community tanning industry's main outlets are the footwear, leather goods, furnishing, clothing and glove-making industries.

Finished leather is not usually exported over great distances, with the exception of special quality goods. This points to a vital issue: the activity within the tanning industry depends on the activity in the national or regional industries. Internal demand has a considerable influence on tanning activities.

In general, however, it must be said that despite continuous and repeated efforts, the Community tanning industry, which, traditionally and historically, has always thought and acted in terms of the international market, has not succeeded in establishing a major export flow.

This means that tanning undertakings are dependent on downstream regional (or national) companies. Consequently, the decline of one of the downstream companies will inevitably result in the decline of the tanning industry.

The major protagonists in the world leather sector appear to be lining up their forces to engage battle on the international trade front in the hope of securing a bigger share of what the consumer is willing to pay for leather goods.

In the meantime, and given the current rise in prices, the industry is faced with the question of how much consumers will be prepared to spend in the long term on leather goods. In the Western world, leather goods now come in a wider range of forms and qualities, aimed at a broader than ever consumer group.

In the Eastern bloc, plans to increase leather shoe consumption are by all appearances moving steadily forward.

Behind these two groups is a much larger group of people from the Third World, whose share in world consumption is no more than about one fifth, although they make up nearly three quarters of world population. For the overwhelming majority of these people, the purchase of even the cheapest pair of leather shoes is a rare if not impossible event.

There then follows the more difficult question of the possible distribution of the available raw materials among the different sectors of the leather goods market and how this distribution might be reflected in price movements.

It should be recognized that a large part of the data supplied by international organizations (and in particular the conversion rates for products at the various stages of processing) refers to groups of countries described either as 'developed' or as 'developing'. The group of 'developed' countries includes the OECD, the European countries of the CMEA (COMECON), plus South Africa and Israel; it therefore contains not only diametrically opposed economic systems, but also a wide variety of hide production and processing methods.

The group of 'developing' countries is even more heterogeneous, the only common criterion being that of gross national product. One thus finds lumped together economies characterized by stagnation, such as those of Bangladesh or Indonesia, or even by decline, as in certain African countries, and rapidly developing economies such as those of Argentina, Brazil, South Korea and Taiwan.

As a result, the data tend to obscure considerable variations at each stage of the leather manufacturing process. We have attempted to give more precise assessments only where we believed one country or sub-group of countries to be particularly important for the purposes of this study, and where the data appear to be sufficiently coherent.

(c) Opening up markets outside the Community

JAPAN

Despite all its efforts, the Community has not so far achieved any appreciable results as regards relaxation of protectionist measures introduced in Japan.

The Japanese market accounts for a substantial proportion of domestic production (10%) and therefore offers great potential as an outlet for exports. For this reason, the Community has called for a special quota of 12 million m<sup>2</sup> of fine leather (cow leather) and a progressive reduction of the customs duty on cow leather. The Japanese response was to reject all these requests.

CHINA

The Commission is currently conducting studies to establish contacts with a view to breaking into this huge market.

(d) Figures

In response to the increased tension on the international market caused by structural changes within the industry, a sustained effort has been undertaken by the relevant international bodies to improve the figures supplied to governments and the industry. Bearing in mind the nature of the production of raw hides and skins, these bodies (FAO, UNCTAD, UNIDO and the OECD) have made particular efforts to estimate the real levels of production and utilization and above all to make forecasts on the availability of raw hides and skins in the course of the next decade.

The numerous difficulties surrounding the preparation and interpretation of the current data on the industry, not to mention projections, have been referred to elsewhere. We consider, however, that it is the production and consumption trends which are of the most fundamental significance, much more so than figures taken in isolation, whatever their statistical value; an acceptable degree of reliability can be obtained, especially since certain essential data concerning cattle population are determined several years in advance.

## II. The rapid deterioration in the situation in certain countries

### (a) The proposals contained in the motion for a resolution by Mr PATTISON, Mr TREACY and Mr CLUSKEY relating to Ireland

Three Irish MEP's, Mr Seamus PATTISON, Mr Sean TREACY and Mr Frank CLUSKEY, have drawn the attention of Parliament to the difficulties facing the tanning industry not only in Ireland, but in all Community countries and wish Ireland - most directly threatened - to be empowered to take protective measures, with the authorization and support of Community bodies.

In effect, Irish Leathers, the largest tanning enterprise in Ireland, has recently had to announce 202 redundancies as part of a programme of cuts agreed jointly with the Ian Teoranta company.

Production of tanned leather in Ireland has fallen from 25,000,000 square feet in 1977 to 10,000,000 square feet in 1982, as a result of dubious practices by a certain number of skin exporting countries.

It is alleged that certain countries are resorting to dumping, in particular Brazil, Sweden, Argentina, Tanzania and Bangladesh. During the first 6 months of 1982, Brazilian imports to the United Kingdom are said to have reached 1,299 tonnes, that is, three times as much as in the first half of 1981.

This constitutes a 'potential disadvantage' which is covered by the Community regulation and will enable us to strengthen anti-dumping measures. However, these procedures should be more clearly and precisely defined by the countries which contest such measures and they should inform the Commission, which is not always done.

### (b) The development of the situation in France in recent years

In 1950, the French tanning industry was made up of over 500 enterprises, the bulk of whose production was exported.

Leather was widely used up to that time in agriculture (harnesses for animals), for military purposes (army boots were made entirely of leather) and in the footwear industry, which used no other material but leather (soles and uppers).

Today, the uses of leather are changing. While the consumption of leather has remained stable, its end uses have varied, witness the replacement of leather in the manufacture of shoe soles and its introduction into the fancy goods industry and the clothing sector (only 15-20% of shoes have leather soles).

Tanneries consequently have to change to different tanning methods (vegetable tannage for hard shoe leathers, chrome tannage for more supple leathers).

It should be noted that tanning is a long-established industry in France, run by managers who have little in the way of commercial expertise and are out of touch with the problems of the market, whereas the operators in this sector need to be able to supply orders within two or three weeks, in response to a new fashion, for example.

### III. Three typical examples of the variety of situations prevailing in the European tanning industry

#### (a) The Irish case and its repercussions on related British industries

The Irish Leathers Group made a pre-tax loss of IRL£ 1,790,000 in the first half of 1982 and Mr Aidan DUNN, its chairman, does not foresee any significant improvement for the second half. Income has moved from IRL£ 10,990,000 to IRL£ 9,870,000, with a trading loss of IRL£ 1,530,000. The trading results for the first half of the year are affecting the financial structure of the group and forcing its management to cooperate with banking groups and take Draconian measures.

The British trade magazine Shoe and Leather in its issue of October 28 1982 devoted some space to the difficulties of Irish Leathers and observed that some of their consequences extended outside Ireland and on to the British market.

The surplus capacity in the leather industry has resulted in ruthless competition on all markets, and in England a certain number of buyers have been squeezed out by the force of circumstances. All of the British leather-using industries have thus been hit by the financial difficulties affecting the tanning industry in Ireland. Any aid which could be given to this industry would make a powerful contribution towards providing effective support for a much wider spectrum of activities.

(b) The concentration efforts of the industry in France

- Tanneries

A certain degree of industrial concentration has taken place in France since 1970. Of the 10 groups which have emerged from these operations, 7 are in the hands of official receivers and are running on government aid, designed to modernize them and help them to build up their own capital.

This proves that combinations of this kind are not a viable proposition.

- Taweries

The French tawing industry is made up of a number of small enterprises which are mainly concentrated in the Midi-Pyrenees region (Mazamet, Craulhet).

The tawing industry supplies leather primarily for the lining of shoes and clothing.

(c) Italian micro-enterprises are highly specialized

The tanning industry is a powerful force in Italy. It is made up of a number of small, specialized production units (4,000 - 5,000 workshops each employing 2 or 3 people), but these enterprises are very flexible in their organization and techniques and are highly receptive to market developments. This system seems to be most effective.

(d) Output per worker

- In France: output per worker is 27-28 feet per hour;
- In Italy output per worker is 40-45 feet per hour;
- In the Federal Republic of Germany: 50 feet per hour.

This difference is the consequence of modernization, but is also connected with quality.

French tanners use traditional methods and the quality of their products is much higher than that of German or Italian goods. However, that fact is not reflected in the market.

#### IV. The causes of the problems in the tanning industry

- (a) Inadequate organization of supply networks;
- (b) Importation

Speculation in the major exporting countries and the natural origin of the products cause fluctuations in raw high prices, and this drains the resources of the industry. In addition, financial management and the control of production costs then become more difficult.

As for the internal market, one annual public sale does not seem sufficient to provide the transparency necessary for the efficient management of supplies.

- (c) The qualities of skins

Because of the poor quality of locally produced skins, imports tend to be preferred, and this represents an enormous source of loss for our economy.

As it is impossible to judge the quality of skins in the raw state, the purchase of skins is a risky matter and to a large extent determines the amount of reject material, unfit for processing, the cost of which has to be met by the undertakings.

- (d) Investments, production plant

Given its obsolete equipment, and in the absence of an investment policy, our tanneries cannot generate a sufficient degree of profitability, and hence of self-finance, vital for modernizing production sites and ensuring greater competitiveness on the market.

If the tanning industry is to survive, it is essential to rationalize production, but this is not synonymous with job shedding, for the raw material used requires many treatments which can only be performed by hand.

Furthermore, it should be noted that imports from countries with lower labour costs, countries where little attention is paid to the problems of pollution (the considerable cost of reprocessing water in a purification plant attached to the factory or of paying the local authorities for the treatment of waste water) also constitute a distortion to competition.

## V. Proposed remedies

### 1. Supply

- rationalization and regulation of supplies,
- abolition of all barriers to freedom of movement within the Community,
- maintenance and extension of Community rules governing the internal market,
- free access to the raw materials needed to process skins,
- 'penalization' of countries which limit their exports and implementation of the agreements already concluded.

Possibly:

- collection of skins within Member States by approved operators,
- establishment of a system of public sales,
- skins to be put on sale no later than 2 months after slaughtering,
- management of markets by public bodies.

### 2. Production

- Public aid towards the reconstitution of own resources with a view to rationalizing the instruments of production, without, however, placing any burden on the CAP budget.

### 3. Marketing

- free access to raw material resources,
- maintenance and extension of Community rules governing the internal market and, in particular:
  - = improvement in the quality of Community production of leathers and untreated skins,
  - = laying down of technical standards for finished leather,
  - = Community definition of the term 'leather' and recognition at Community level of the 'leather' label (introduction of quality labels),
  - = abolition of all barriers to freedom of movement within the Community.

### 4. Classification of skins

- introduction of a European nomenclature to allow the harmonization of the respective classifications of each country.

## 5. Pre-tanning plants

To obtain the maximum market value for national and European production, we must establish pre-tanning plants to:

- (a) limit the risk of deterioration of skins,
- (b) supply tanneries poorly or ill-equipped for the manufacture of wet blue leather,
- (c) stabilize the market in respect of quality and prices.

## CONCLUSIONS

1. The committee has always given priority to FREE ACCESS TO RAW MATERIAL RESOURCES and the tanning industry association has always endorsed this approach. We feel that great emphasis should be placed on this aspect. However, the effects of reducing imports of unfinished products would be catastrophic.

## 2. IRELAND - DUMPING

The Commission has already held meetings with representatives of the IPL and PV in 1981 and 1982 and has invited them to submit precise details and figures.

Value in '000 ECU (1981)

Total value of all imports into the Community  
from other countries

Annex 1

	France	Belgium-Luxembourg	Netherlands	Germany (FR)	Italy
Untanned skins	127,990	12,242	8,642	38,977	252,781
Cattle hides	38,854	3,247	20,670	65,714	81,368
Sheep and lamb hides	15,556	1,332	853	22,123	35,982
Goat and kid hides	24,207	378	1,099	21,496	71,384
Others	10,180	323	3,203	20,434	26,211

	United Kingdom	Ireland	Denmark	Greece	Total (10 Member States)
Untanned skins	39,620	106	2,159	10,009	492,526
Cattle hides	58,982	4,006	16,106	1,334	290,281
Sheep and lamb hides	15,821	28	451	5	92,151
Goat and kid hides	8,540	79	62	148	127,393
Others	4,449	78	435	37	65,350

Value in '000 ECU (1981)

Total value of the skins imported into the Community  
from industrialized countries

	France	Belgium- Luxembourg	Netherlands	Germany (FR)	Italy
Untanned skins	101,198	12,150	4,905	31,077	108,071
Cattle hides	17,366	1,499	7,445	35,218	35,173
Sheep and lamb hides	3,612	1,278	149	14,872	7,472
Goat and kid hides	1,584	33	6	1,931	5,450
Others	3,008	101	2,113	14,211	8,542

	United Kingdom	Ireland	Denmark	Greece	Total (10 Member States)
Untanned skins	26,772	106	2,122	5,281	291,682
Cattle hides	24,306	2,512	12,488	384	136,391
Sheep and lamb hides	12,108	13	428	5	39,937
Goat and kid hides	645	58	61	22	9,790
Others	2,192	78	200	2	30,447

Value in '000 ECU (1981)

Total value of skins imported into the Community  
from developing countries

	France	Belgium- Luxembourg	Netherlands	Germany (FR)	Italy
Untanned skins	25,955	91	3,567	5,078	108,821
Cattle hides	20,794	1,679	12,510	29,140	45,253
Sheep and lamb hides	11,925	51	694	7,243	28,398
Goat and kid hides	22,328	345	1,062	19,565	65,349
Others	4,827	188	800	5,052	16,980

	United Kingdom	Ireland	Denmark	Greece	Total (10 Member States)
Untanned skins	10,866	0	37	4,668	159,083
Cattle hides	34,653	1,492	3,216	951	149,688
Sheep and lamb hides	3,689	14	23	1	52,038
Goat and kid hides	7,894	22	1	126	116,692
Others	1,978	0	0	35	30,660

Value in '000 ECU (1981)

Total value of skins imported into the Community  
from state-trading countries

Annex 4

	France	Belgium- Luxembourg	Netherlands	Germany (FR)	Italy
Untanned skins	835	1	171	2,821	35,890
Cattle hides	695	69	715	1,351	940
Sheep and lamb hides	20	2	10	7	112
Goat and kid hides	296	0	31	0	584
Others	2,343	35	289	370	688

	United Kingdom	Denmark	Greece	Total (10 Member States)
Untanned skins	1,982	1	60	41,761
Cattle hides	24	408	0	4,202
Sheep and lamb hides	22	0	0	173
Goat and kid hides	0	0	0	911
Others	281	235	0	4,241

Opinion of the Committee on Economic and Monetary Affairs

Draftsman : Mr WELSH

At its meeting of 25-26 May 1983, the Committee on Economic and Monetary Affairs appointed Mr WELSH draftsman of an opinion for the Committee on External Economic Relations.

The committee considered the draft opinion at its meeting of 17-18 October 1983 and adopted it unanimously.

The following took part in the vote :

Mr MOREAU, chairman; Mr HOPPER, vice-chairman; Mr WELSH, draftsman; Mr BEAZLEY, Mr BONACCINI, Mr CAROSSINO (deputizing for Mr. Fernandez), Mr de GOEDE, Mr DELOROZOY, Mr LEONARDI, Mr PAPANTONIOU, Sir Brandon RHYS-WILLIAMS and Mr von WOGAU.

## THE TANNING INDUSTRY IN THE EUROPEAN COMMUNITY

### INTRODUCTION

The tanning industry exists in all 10 of the European Community Member States but is concentrated in France and Italy. About 60,000 people are employed by the industry, mainly in agricultural regions of the Community.

In 20 years, employment has declined by 40%.

All types of leather are produced in the Community, and the main outlets for the tanners are footwear, leathergoods, furniture, clothing and glove manufacturers.

The output per worker varies considerably within the industry e.g.:

In France	:	output per worker is 27-28 feet per hour
In Italy	:	40-45 feet per hour
In Germany	:	50 feet per hour.

This difference is in part the result of modernization and in part is also linked to quality. French tanners use traditional methods, and the quality of their products is much higher than that of German or Italian goods. However, that fact is not reflected on the market.

### SUPPLIES OF RAW MATERIALS AND TANNING EQUIPMENT

The industry treats 4 different types of skins :

(a) Cow/Calf leathers and raw skins:

Because of the CAP, the Community produces, with great stability, between 700,000 and 725,000 tons of raw skins a year. Demand falls

between 700,000 and 850,000 tons depending on the economic climate. Only one country in the Community shows a serious deficit: Italy. (Spain and Portugal have the same problem). All other countries have a surplus, especially France.

The Community is dependent upon the free world for its supplies outside the EEC, mainly the other European countries, the US, Canada, New Zealand and South Africa. Certain African countries export considerable quantities of dried and/or semi-finished skins to the EEC.

There is a new tendency to import wet-blue (i.e. a chrome-tanned leather which undergoes no other processing and is sold in the wet state), primarily from the United States. About 70,000 tons of semi-finished leathers are imported.

(b) Sheep skins (raw and semi-finished)

The CAP is also important in this area; because of it, the Community's sheep herd is on the increase. The annual demand of tanning in the Community is 100 million raw skins. 30 million come from the EEC, 50 million from countries in the free world (mainly Australia and New Zealand) and 20 million from developing countries.

In addition, the Community imports about 5,000 tons of semi-finished skins a year.

Exports outside the EEC are around 8 million skins a year, of which 5 million go to the free world and 2 to 3 million to the Eastern countries.

(c) Goatskins (raw and semi-finished)

Only 2 Community countries produce goatskins: France and Greece. The Community is 90% dependent on imports, mainly from developing countries and the East (China). These imports vary between 22 and 32 million raw skins per year, according to the economic climate.

In addition, 12 to 15 million tons are imported in a semi-finished state.

(d) Exotic skins

These are 100% imported from countries outside the Community. The Washington Convention, which is not respected by the major competitors of the Community (Spain, Japan, India etc.), presents serious problems to the tanners in the Community with regard to supplies of reptile skins.

No major problems are experienced within the Community by tanners in relation to the supplies of tanning chemical and other products. (However, see point 4(ii) re Whale Oil.) As the Community is the leading and most diversified producer of machinery and other tanning equipment, the tanners in the Community have no supply problem in this area.

PRODUCTION

(a) Cow/Calf leathers and raw skins

(i) Leathers sold by weight

Production has been declining slowly over many years with the exception (for fashion reasons) of the years 1976-1979. All Member States are experiencing this development except Italy.

(ii) Leathers sold by area

The situation varies :

- Germany : relatively stable production (20 to 22 million sq.m.);
- France : the situation has deteriorated since 1979, mainly due to the pressure of imports (Italy, Brazil, Argentina, etc);
- Italy : overall stability for calf: 12 to 14 million sq.m.; for cow leather, very strong expansion up to 1979 but appreciable decline in 1980-1981;

- Holland : relative expansion up to 1977, followed, after a drop of 10-15%, by a stabilization at 3 million sq.m.per year;
- Belgium : continual deterioration in production with a slight gain in 1981;
- UK : sustained level of production of approximately 20 million sq.m.up to 1979; then radical drop mainly due to rapid decrease in internal consumption;
- Ireland : constant drop in production since 1976 (reduction to half production in 5 years) due to decline in exports (British market) and in the demand of the internal market;
- Denmark : constant decline in production due mainly to the internal market.

(b) Sheep and Goat skins

- Germany : constant decline in production due to a decrease in internal demand (imports of finished goods). Exports alone prevent an almost total collapse;
- France : Sheep: relatively stable up to 1979, net drop in 1980-1981 due to decrease in internal market;  
Goat: relatively stable;
- Italy : overall stability with occasional fluctuations;
- Holland : stable up to 1980. Then slump in 1980 (-50%);
- Belgium : total disappearance;
- UK : stable up to 1977. Since then deterioration due to weakness of the internal market;
- Ireland : total disappearance;
- Denmark : marked reduction.

(c) Other leathers and finished skins

Chamois skins : most Member States produce significant quantities of chamois skins, something that occurs nowhere else in the world;

Exotic skins : France, Germany, Italy and the UK are major producers of exotic skins.

4. THE MAJOR PROBLEMS

(i) Supply of raw materials

Since the beginning of the 1970's, certain countries such as Argentina, Brazil, India, Pakistan and Bangladesh have limited or forbidden all exportation of leathers and raw skins. As a result, the normal supply of the tanneries and leather industries throughout the world has been disrupted. These restrictive practices and export embargoes threaten the survival of the tanning and leather processing industries in the free world, especially during tense pricing periods. These practices, which devalue the price of raw materials in the countries concerned, may be likened to grants and export subsidies. As a result, many tanneries in the Community, especially in the goat sector, have had to close down.

Both the tanning and footwear industries in the Community view the re-establishment of free transactions in raw materials as a primary and essential objective.

(ii) Supply of other products

More than 90% of tanning is carried out on a chrome base mainly imported from countries like the USSR, Zimbabwe, South Africa, etc. Community tanners are examining the medium and long-term supplies of chrome. However, Community research is essential to develop new tanning techniques based on other products e.g. aluminium.

The embargo on the importation of whale oil has seriously affected the tanning community because substitute products are almost non-existent. This has led to a decline in the quality of certain products.

(iii) Environment

The tanning community is subjected to competition from countries which have no regard for regulations or provisions where the environment is concerned. A compensation right for importation is needed.

(iv) Imports extra-EEC

Since 1974-75, the Community has had to face competition from countries like India, Pakistan, Brazil, Argentina and Uruguay which have embargoed or taxed exports of raw and semi-finished skins and leathers, and subsidized the export of finished leathers.

Imports from these countries are concentrated on :-

- particular types of finished leather (e.g. black and brown middle quality shoe-upper leather;
- particular countries.

These imports have had a serious effect in the Community, particularly in Ireland, the UK and France. Entire sections of the tanning industry have disappeared as a result.

Since the early 80's, a reduction in the pressure of imports of finished leather has been witnessed, except from Brazil, which particularly affects the British market. However, the same countries using the same practices are developing leather conversion industries: shoe uppers, leather clothing, shoes, etc.

(v) Exports - extra-EEC

It is impossible to export freely to the Eastern countries and to developing countries. Even Brazil, whose industry is as developed as that of the Community, does not tolerate any foreign competition. However, the rules of free competition are respected by the USA, Canada, Australia, the European countries, etc. There is a major problem in relation to Japan, which is effectively preventing all importation of finished leather.

Since its domestic market is protected in this way, Japan is able to lay in supplies of raw materials at any price on the international market. Japan has no raw material resources. This threatens supplies and the stability of community tanning. Thus, Japan exports finished leather at a low price and indeed leads the world in this respect.

The principal features of Japan's protectionist imports policy on tanning are :-

- high import prices;
- import quotas (it should be noted that Japan has granted specific quotas to the USA, Australia, India and Canada, but the EEC is clearly discriminated against);
- import licences expressed in US dollars (and not in quantities) are granted secretly to importers. (These licences may be sold, thus increasing the price of the imports).

It is an urgent and priority matter to secure the complete opening up of the domestic market in Japan.

(vi) Exports of raw materials to Eastern countries/surveillance system

As a major producer of raw leathers, the Community exports part of its resources, some to Eastern countries. The purchases by the Eastern countries (who buy large quantities in a short period) cause acute disorganization of the European market.

The tanning community insists on the need to maintain a surveillance system, with the possibility of vetoing all exports where necessary.

#### CONCLUSIONS

5. The Committee on Economic and Monetary Affairs notes that tanning is a traditional craft-based industry and labour-intensive. As such, European tanners are inevitably vulnerable to competition from developing countries, particularly when these control significant raw material sources.
6. There does not appear to be any need for a specific sectoral policy for tanning in addition to existing Community investment such as the Regional and Social Funds, Investment Bank loans and other mechanisms to promote the modernization of traditional industrial sectors. Such a policy would not address the main problems faced by the industry which result from the international trading environment.
7. In view of the Community's policy of developing its trade with the developing countries and the fact that a number of exporters are already having difficulty in managing their debt, direct measures to restrain imports would be inappropriate.
8. At the same time, the European tanners are entitled to protection from unfair competition in the form of subsidized production, import controls and interference with the export of raw materials, all of which are contrary to the principles of GATT. The committee believes that the common commercial policy should be directed to the easing of such distortions.
9. The committee would invite the Commission to oppose most resolutely any attempt, by Member States to interfere with the internal market in a misguided attempt to protect their domestic industries. Only aid for restructuring and for the modernization of the industry can be accepted.

## MOTION FOR A RESOLUTION - DOCUMENT 1-840/82

tabled by Mr PATTISON, Mr TREACY and Mr CLUSKEY  
pursuant to Rule 47 of the Rules of Procedure on the crisis in the tanning industry

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The European Parliament,

- A - bearing in mind the importance of agricultural-based industries in maintaining and creating employment, particularly in Ireland,
  - B - aware of the particular importance of leather tanning in certain areas,
  - C - concerned at the continuing increase in dumping of various forms of unfinished leathers such as rough crust leather, wet blue leather, finished shoe and semi-finished shoe leather from outside the EEC on the UK market, Ireland's main market, which is having disastrous effects on employment in the tanning industry in Ireland, particularly the South-East,
  - D - aware in particular of the jobs already lost and the threatened redundancies,
  - E - also concerned at this example of the undermining of an indigenous industry through unfair competition,
1. calls on the Commission to undertake the necessary measures to stop this dumping as a matter of urgency;
  2. calls on the Council to empower the Commission to take the necessary action, and to allow for the Irish Government to undertake the measures needed to protect its own essential interests;
  3. calls on the Irish Government to implement as a matter of urgency measures to protect this industry and the threatened jobs;
  4. calls on its President to forward this resolution to the Commission, Council and Member States.

