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COMMITTEE ON COMMODITY PROBLEMS

INTERGOVERNMENTAL GROUP ON MEAT AND DAIRY PRODUCTS

SUB-GROUP ON HIDES AND SKINS

Ninth Session

Arusha, United Republic of Tanzania, 1-3 February 2006

HIDES AND SKINS AND LEATHER – STRATEGY FOR DEVELOPMENT

I. BACKGROUND

1. The Sub-Group developed a strategy for the development of the sector at its Fourth Session in 1994, and re-considered it at its Seventh Session in 2001. At its Eighth Session in 2003 the Sub-Group endorsed the strategy contained in document CCP: ME/HS 03/3, reproduced here as Annex 1, which was intended to guide the work of the Secretariat in the coming years. It requested that the Strategy should be placed regularly on its agenda for review at future sessions, so that progress could be monitored and adaptations made in the light of any changing requirements. This present document has been prepared in the light of that request.

II. THE EXISTING STRATEGY OF THE SUB-GROUP

2. The strategy, as adopted by the Sub-Group at its Fifth Session in 1996 and subsequently amended, identifies the following priority areas in which the Sub-Group should direct its efforts to promote development of the sector:

- a) Wastage of hides and skins: non-collection and damage;
- b) Statistical intelligence;
- c) Restrictive trade policies;
- d) Environmental constraints;

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- e) Commercial trade information;
- f) Market competition from synthetics;
- g) Capacity building in producing countries;
- h) Promoting the image of the industry;
- i) Attraction of investment to the industry;

3. The Sub-Group may now wish to review the set of priority areas and suggest any additions, deletions or re-ordering which may be appropriate.

4. Delegates may recall the attempt in previous years to incorporate realistic, time-bound goals into this strategy. However, the achievement of goals depends on the availability of resources, and the resources available to the Sub-Group are limited. Thus in the document considered at the Eighth Session, the Secretariat attempted to specify goals only to the extent that matching resources were likely to be available to the Secretariat itself. To the extent that resources are available from other parts of the hides and skins sector, it may be possible to consider the specification of further goals which might be realised without the direct support of the Secretariat. Governments of member countries, other institutions and the private sector may be able to identify specific goals which they could support. The Sub-Group may wish to devote some attention, particularly to the higher-priority elements, in an attempt to incorporate specific targets into the strategy.

III. PROGRESS SINCE THE EIGHTH SESSION

5. Progress has been made under three of these priority areas since the Sub-Group last met. The Secretariat has no progress to report since the last Session on the remaining areas of the Strategy. Delegations at the Ninth Session may wish to share information which they have on developments under any of these headings.

A. WASTAGE OF HIDES AND SKINS: NON-COLLECTION AND DAMAGE

6. The wastage caused by non-collection and damage is widely recognised as a major problem, and has therefore received attention from various quarters. In particular, so far as the Sub-Group is directly concerned, a number of active projects financed by the Common Fund for Commodities have addressed this problem. These are described in document CCP: ME/HS 06/3. While these projects would be expected to have had positive impacts, the shortage of good data remains a barrier to the quantitative assessment of their effect.

7. The Secretariat has undertaken an analysis of hides and skins value chains, addressing the extent to which price incentives have an impact up-stream. The lack of price incentives to farmers contributes to the non-collection and damage of the raw material. This analysis, which includes suggestions on how the chain can be strengthened, is to be presented to the Consultation on Hides and Skins which is to be held in conjunction with the Ninth Session of the Sub-Group.

B. STATISTICAL INTELLIGENCE

8. A document specifically on statistical issues, CCP: ME/HS 06/4, has been prepared. That document reports progress which has been made recently. It also details some of the problems faced in developing and maintaining a good statistical data-base, and seeks the guidance of the Sub-Group as to how they might be approached.

9. Since the Sub-Group last met, the statistics published in the Statistical Compendium have become available through the internet.¹ For those with ready access to the internet, this provides a

¹ The data base may be accessed through the Commodities and Trade Division website at <http://www.fao.org/es/esc/>, click on Hides and Skins, then look for "World Statistical Compendium and on-line data-base".

convenient way to access the data, and allows them to be incorporated easily into spreadsheets or other analytical tools.

C. RESTRICTIVE TRADE POLICIES

10. The Sub-Group has continued its efforts to analyse and provide information on the impact of restrictive trade policies. This topic is again on the agenda of the Consultation on Hides and Skins which is to be held in conjunction with the Ninth Session of the Sub-Group.

ANNEX 1: REPRINT OF THE 2003 DOCUMENT: CCP: ME/HS 03/3

I. BACKGROUND

1. At its Seventh Session in Rome, 4–6 June 2001, the Sub-Group on Hides and Skins reviewed a proposed development strategy for hides and skins. The Sub-Group noted that the strategy was more of a list of items for attention and not a strategic plan and it requested the Secretariat to develop it into a strategic plan, with realistic goals. It noted, however, that the priorities identified in its original strategy document should generally remain its priorities for development activities in the future. Three more priority areas were added to the list. It was also requested that the progress made in implementing the strategic plan should be monitored and reported to the Sub-Group for review during its biennial Sessions.

II. PRIORITY AREAS

2. The strategy, as adopted by the Sub-Group at its Fifth Session in 1996 (CCP: ME/HS 96/9) identifies the following priority areas in which the Sub-Group should direct its efforts to promote development of the sector:

- a) Wastage of hides and skins: non-collection and damage;
- b) Statistical intelligence;
- c) Restrictive trade policies;
- d) Environmental constraints;
- e) Commercial trade information;
- f) Market competition from synthetics.

In addition to the above priority areas, the Sub-Group added the following during its Seventh Session in 2001:

- g) Capacity building in producing countries;
- h) Promoting the image of the industry;
- i) Attraction of investment to the industry.

This document reviews the progress made thus far in implementing the Sub-Group's strategy since its adoption. An attempt is also made to refocus some of the issues by setting more realistic goals as requested by the Sub-Group in 2001. The following five-year strategic plan is presented to the Sub-Group for its consideration. It is expected that the plan will be reviewed by the Sub-Group every two years during its formal sessions and, where necessary, changes made.

III. THE FIVE-YEAR STRATEGIC PLAN

3. The objective of the strategic plan is to guide the Sub-Group and its Secretariat through most of the remainder of the current decade.

4. Resources available to the Sub-Group are limited, and goals can be specified only in those areas where resources are available and where there can be reasonable confidence of success. For other priority areas, the Sub-Group can do no more than seek resources for project work or encourage and work with other agencies in their fields of competence.

5. For each of the identified priority areas, the following outlines the nature of the issue, progress in recent years, and goals for the forthcoming 5 years.

A. WASTAGE OF HIDES AND SKINS: NON-COLLECTION AND DAMAGE

6. When identifying wastage of hides and skins due to non-collection and damage as a problem that required immediate attention, the Sub-Group noted in 1996 that considerable losses were incurred as a result of poor livestock management practices, treatment during and after slaughter as well as non-collection of flayed hides. It was further considered that as much as 50 percent of hides and skins in developing countries undergo downgrading compared to an average of about 20 percent in many developed countries. A number of factors were identified as being responsible for the losses and these included, but were not limited to, poor grading, handling and preservation methods, inadequate transportation facilities, limited extension services, lack of market information on the actual market value of hides and skins, and inadequate facilities for slaughtering and flaying of animals.

7. Since the adoption of the strategy in 1996, a great deal of effort has been undertaken by the various stakeholders to address the problem of wastage of hides and skins. The Sub-Group has successfully mobilised resources, especially from the Common Fund for Commodities, for a number of projects which address this problem in different ways. For details on these projects, see document CCP: ME/HS 03/4.

8. Progress towards reducing wastage cannot be monitored at present because there is no adequate baseline information. As a means of tracking success, the Sub-Group will undertake an analysis of the level of wastage and recovery rates in selected countries during the next five years. This will provide base-line information from which subsequent progress can be monitored. In doing so, the Sub-Group will depend on the cooperation of the different stakeholders (producers, traders, industry associations, governments, etc) in providing the statistics necessary for the analysis.

9. The Sub-Group will maintain its attempts to mobilise resources to help address the problem. In addition, it will encourage governments and industry organisations to continue with development efforts and programmes aimed at achieving reductions in the level of waste.

B. STATISTICAL INTELLIGENCE

10. During its Fifth Session in 1996, the Sub-Group reiterated the importance of having a comprehensive data set that permits a detailed analysis of market developments and trade outlook, as well as for planning purposes and decisions on policies and investment for the sector. This is especially important given the by-product nature of hides and skins whereby their supply is largely dependent on the demand for meat, wool and dairy products.

11. Over the years, considerable progress has been made in the development of statistical information on the sector. An integrated statistical data base was created by the Secretariat and its maintenance is ongoing. A statistical compendium, drawing on this database, is published regularly. A Compendium of Conversion Factors that facilitates the handling of data on a range of heterogeneous products and diverse units of measure was first published in 1981 and updated in 1992. These factors are reviewed on a regular basis to ensure their continued relevance to the sector needs.

12. The Secretariat regularly conducts short-term reviews of the global trends in production, trade and prices and the findings, together with the relevant statistical tables, are posted on the Commodities and Trade Division webpage (<http://www.fao.org/es/ESC/>). In addition, 'Medium-Term Projections' are published approximately every five years.

13. However, more can be done to improve these statistics. While complete information is available from some countries, in other countries it is not. Information on the production of leather (light and heavy) and leather footwear is especially scarce. The Secretariat often makes estimations in order to fill the gaps, particularly for African and Asian countries.

14. In 1994, a comprehensive questionnaire was developed and dispatched to member countries for the first time. However, the experiment with questionnaires did not work well. Response rates were low and, in many cases, the responses received were incomplete. Thus the use of questionnaires was not continued.

15. In the next five years, the Secretariat will endeavour to improve the flow of information especially from those African and Asian countries from which little or no information is currently being received. Additional resources will be sought to collect reliable statistics from selected countries. As part of the process to improve the availability of statistics, the Secretariat intends to begin reissuing the questionnaires to Governments and industry associations starting with 2004. While greater efforts will be made to solicit responses, the success of this endeavour will largely depend on the cooperation of all stakeholders. Over time, the database will be expanded to include data on the other hides and skins (such as pig skins, etc) that are not presently collected.

16. There is at present no publicly-available global indicator of hides and skins prices. To redress this deficiency, the Secretariat will construct a broad-based price index and, if need be, sub-indices that would be representative of the pattern and structure of international trade in the leather and leather products. The indices would be updated and disseminated, using the electronic information exchange network, on a monthly basis.

17. Greater use will be made of electronic means of disseminating information. The statistical database will be made available through the internet, available to all to access.

18. The Secretariat has recently launched an *Electronic Information Exchange Network*. In addition to it being used as a source of information, this free electronic service would also be used as an informal forum for the discussion, among subscribers, of all issues relevant to the national and international markets and policies for hides, skins, leather and leather products. It is hoped that users will enhance the scope of the service by supplying information on market and policy developments, including information on technical and economic factors that have an impact on production, consumption, trade and prices.

C. RESTRICTIVE TRADE POLICIES

19. Trade in this complex commodity group has been severely constrained by various regulatory measures including tariff and non-tariff barriers. This has been of considerable concern to the Sub-Group over the years. Detailed studies on the impact of protectionism to the industry have been conducted and it is estimated that the barriers reduce trade in the sector by as much as US\$2.5 billion annually.

20. While it is not the role of the Sub-Group to pursue the negotiations of improved conditions of market access, its roles include the provision of information to its members on trading conditions, particularly on any changes in access conditions such as those which arose from the Uruguay Round. Such information is of considerable value for planning and policy making purposes by both government and non-government organizations.

21. The Sub-Group will continue its efforts of raising awareness of the damage caused to world trade by these restrictions. This will be done by conducting and disseminating analytical studies (such as document CCP: ME/HS 03/2 on the *Linkages Between Trade and Environmental Policies in the Hides and Skins and Leather Sector*) and other relevant activities on a regular basis. In addition, it will monitor and report on the progress of the current round of negotiations. Once the current round of negotiations is concluded, an analysis of the implications to the hides and skins and their products will be undertaken and the results disseminated. The Sub-Group will also continue to encourage the reduction of trade barriers in the longer term.

D. ENVIRONMENTAL CONSTRAINTS

22. The leather industry has been, and continues to be, under increasing pressure to comply with increasingly stringent environmental regulation in all countries. By its very nature, the processes in the industry require enormous amounts of water and involve the use of chemicals in varying amounts. As such, the effluent discharged from tanneries is a significant source of environmental pollution.

23. Many in the industry continue to search for alternative resource management ways that would enable the tanning industry to modify their processing methods so as to ensure a sustainable manufacturing industry for the future.

24. A number of such 'environmental friendly' processes have been developed and implemented in many tanneries across the world but mostly in developed countries. By virtue of their scale of operation, many tanneries in the developing world still lack the capital required to invest in the currently available environmentally friendly processing methods.

25. The Sub-Group recognizes the fine balance between the need to minimize the hazards inflicted to the environment by the leather industry and the benefits being realised from it. The increasing costs of environmental compliance are making it difficult for a number manufacturers to remain competitive. This has, in some cases, led to closures while in other cases manufacturers have chosen to relocate their businesses to places where environmental regulations are less stringent.

26. At past Sessions, the Sub-Group has discussed various aspects of the impact of environmental regulations on trade in the leather industry. At the present Session, it is invited to consider a study on the *Linkages Between Trade and Environmental Policies in the Hides and Skins and Leather Sector* (see document CCP: ME/HS 03/2).

27. Over the next five years, the Sub-Group will continue to work with other agencies to analyse the issues and provide information. In addition, the Sub-Group will continue to encourage efforts to improve the viability of the tanning industry within the constraints imposed by environmental concerns. It will encourage the search for new environmentally friendly tanning technologies and improved effluent treatment. To the extent possible, the Sub-Group will mobilise resources to redress the problem in particular countries.

E. COMMERCIAL TRADE INFORMATION

28. During its Fifth Session in 1996, the Sub-Group highlighted the difficulties faced by exporting countries in accessing information about importers and potential importers. Likewise, buyers encounter problems identifying sources for consistent and good quality supplies.

29. There are a number of trade missions, trade fairs and exhibitions that take place annually in different parts of the world. Refer specifically to MEET IN AFRICA, held every 2 years and organized by the International Trade Centre (ITC). In addition to bringing sellers and buyers together to facilitate trade, these events also serve the purpose of promoting the image of the leather industry. In 1997, ITC produced and published a 'Leather Trade Directory' for the African region. The Sub-Group will cooperate with other agencies, such as the ITC, in their efforts to facilitate contact between potential buyers and sellers.

30. During the next five years, the Sub-Group will continue to encourage and cooperate with appropriate agencies in staging fora to enable buyers and sellers to meet to discuss commerce in hides and skins and discuss other matters of common interest. It will also encourage the establishment of traders' directories, such as the African Leather Trade Directory that was published by ITC in 1997. Such a publication would have detailed information about traders (importers and exporters) and the types (quality and degree of processing) of the commodity that they deal in and would be updated on an annual basis.

31. The Sub-Group will also monitor the development of facilities to trade through the internet (e-commerce) and, where appropriate encourage the expansion of these facilities, particularly in developing countries.

F. MARKET COMPETITION FROM SYNTHETICS

32. To date, attempts to promote increased use of synthetic substitutes has not had much success, with the exception of shoe soles in which the synthetics have made a considerable degree of market penetration.

33. While synthetics are still not a major threat to the leather industry, continued monitoring is necessary. Detection of any loss of market share to synthetics would enable the leather industry to take any corrective measures should there be evidence of increased market penetration.

34. The Sub-Group will review this market periodically to clearly examine the consumption trends in both the synthetics and leather markets and where appropriate will make recommendations to counter any undesirable developments.

G. CAPACITY BUILDING IN PRODUCING COUNTRIES

35. The leather industry - from the production of the raw material to the processing and marketing of the finished product - is widely recognised as a key industry that still has un-utilised potential to substantially improve the livelihoods of many farmers and workers in the developing countries. However, the exploitation of this potential is hampered in many ways, including by the lack of skilled manpower at all levels of the industry. This has contributed to low productivity, low product quality and trade in low-value products.

36. The Sub-Group has been working with other organisations to help address this constraint through various project activities that aim at improving manpower skills of those involved in the leather industries of developing countries in a sustainable manner. Many of the CFC projects contained in document CCP: ME/HS 03/4 include an element of capacity building.

37. The Sub-Group will continue to seek resources to undertake additional activities in this area. Funding will be sought for projects for implementation in Africa, Asia and Latin America and the Caribbean. Such projects should specifically address the requirement for capacity building in the needy countries, with clear indications of sustainability after projects terminate and dissemination to the other parts of the regions. The aim should be for all the three regions to have training centres that are well equipped to provide the skilled manpower needed to help improve the quantity and quality of leather and leather products from those countries.

H. PROMOTING THE IMAGE OF THE INDUSTRY

38. In general, the leather industry is highly regarded as a producer of quality consumer products. However, there are some parts of the world, particularly Africa, where suppliers of the raw material (hides and skins) and the derived products tend to not to have an image of being reliable providers of consistent quality material. Such an image has had a negative impact of the products from the affected regions.

39. A number of events geared towards promoting the image of the leather industry have been organised and implemented in recent years. In particular, the 'MEET IN AFRICA' series (alluded to under strategy element (e)) of fairs have been successful.

40. In addition, practical measures that are geared towards the production and supply of consistently good quality products are being implemented in many of the affected countries. These activities are quite crucial to the stated objective of improving the image of the industry since without an improvement in the quality and supply of the products produced, it would be difficult to promote the image of the industry. Such measures include improved husbandry

practices, slaughter and flaying, grading and preservation methods and skills, all of which should enable the consistent production and marketing of good quality products thereby improving the industry image of the affected countries.

41. While the Sub-Group recognises the need to promote the image of the leather industry, the nature of the task is such that there is little scope for the Sub-Group's direct involvement. However, the Sub-Group will take whatever opportunity it can to assist in the endeavour. It will continue to encourage the various stakeholders to organise activities and implement programmes aimed at improving the supply and quality of hides, skins and derived products thereby implicitly improving the image of the industry.

I. ATTRACTION OF INVESTMENT TO THE INDUSTRY

42. Attracting investment to the leather and leather products industry is especially important for the expansion of a modern industry supplying quality material. In a number of countries, however, there are several factors that still stand in the way of increased investment to the sector. Such factors include:

- lack of transparency in business operations;
- political and economic instability that serves as disincentives to potential investors;
- lack of a favourable policy environment in some countries;
- high interest rates on capital;
- lack of coordination by the agencies that are charged with the responsibility of facilitating the creation and implementation of investment policies and procedures.

43. A number of stakeholders in the industry have been working towards increasing the investment flow to the needy areas of the industry. The most recent of such endeavours was the international leather investment meeting, or *INVEST-TECH 2003*, that took place in Nairobi (July 2003) and was organised by the Eastern and Southern Africa Leather Industries Association together with its European and ACP partners with support from *PRO€INVEST*. The main objective of the meeting was to promote North-South and South-South investment, technology flows, and inter-enterprise co-operation agreements in the various leather sectors.

44. This is another area where the Sub-Group has little scope for directly undertaking activities. However, it recognises the need for increased investment flow to the leather industry, especially in developing countries. It will continue to encourage industry participants to take whatever steps they can to overcome these barriers to investment. Governments in particular can help in facilitating increased investment to the leather industry by putting in place policies that are conducive to investment.

IV. CONCLUSION

45. Following the Sub-Group's request of the Seventh Session, the Secretariat has redrafted the strategic plan and where possible identified goals. In addition, an update of what has been achieved in the priority areas has been provided.

46. Delegates may wish to review this draft and to propose changes where necessary.

47. It is expected that the strategic plan will remain on the agenda for review at subsequent Sessions of the Sub-Group, so that progress can be monitored and the proposed actions and goals may be amended as necessary.