

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Chinese Demand for Imported Hides Beginning to Weaken

Report Categories:

Livestock and Products

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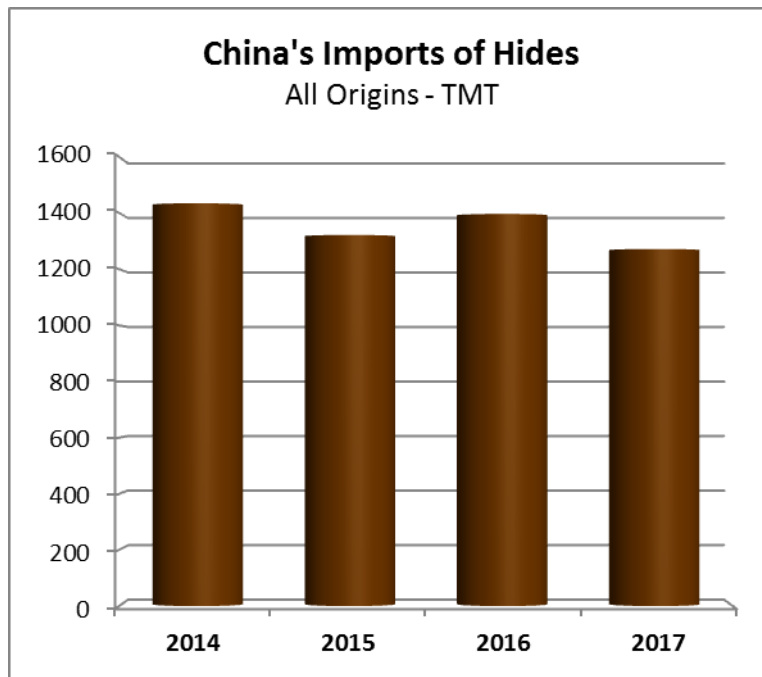
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Report Highlights:

China is by far the largest importer of hides and skins in the world, supplying the massive leather-production industry. However, imports over the past five years have been largely stagnant, and recently have even begun declining. According to key local industry contacts, a combination of both internal and external factors has contributed to this reduced demand and has increased the cost of producing leather domestically. Despite this decline, China remains a huge and important market for U.S. hides.

General Information:

China's Hide Import Demand has Weakened...



Source: China Customs

China is by far the largest importer of hides and skins in the world, supplying the massive leather-production industry. However, imports over the past five years have been largely stagnant, and recently imports have begun declining. For example, in the first quarter of 2018 imports were down nearly 10 percent from the same period last year. According to key local industry contacts, a combination of both internal and external factors has contributed to this reduced demand and has increased the cost of producing leather domestically. These factors include: material substitution, spiraling labor rates, tightening environmental policies, consolidation in the industry, and trade issues.

Material Substitution: The leather industry faces severe competition from substitution with petroleum-based synthetic materials, primarily in shoe manufacturing (which uses more hides than any other industry). Compared to traditional leather shoes, footwear made with synthetic materials, such as fly woven materials, are often lighter in weight, and also often seen as more colorful and trendy by some Chinese Consumers. Both manufacturers and tanners have said their orders of leather footwear have drop significantly due to these lower-cost substitute materials. The switching to these synthetic materials was also exacerbated in past years by high hide prices, which peaked at over \$100 per hide in 2014. Although hide prices have fallen to only \$30 per hide in 2018, shoe makers still think the trend of using substitute materials is irreversible and the only growth opportunities for leather footwear will be with

high-end consumers.

Rising Labor Costs: Increasing labor costs are also impacting the industry, and causing some factories to move to other parts of Asia. In the past thirty years, tanners and shoe manufacturers report that the basic labor wage in China in their factories has grown from less than \$100 to \$600 per month. In addition to higher wages, benefits such as housing, insurance, medical, and pensions have also risen, increasing production costs. Also, despite increased wages, factory owners report that there is still difficulty getting enough workers, as many young workers prefer working the service sector such as hotels and restaurants to the factory environment. As a result, some local factories along coastal cities are increasingly shifting production to Vietnam, Cambodia and Thailand to seek cheaper labor.

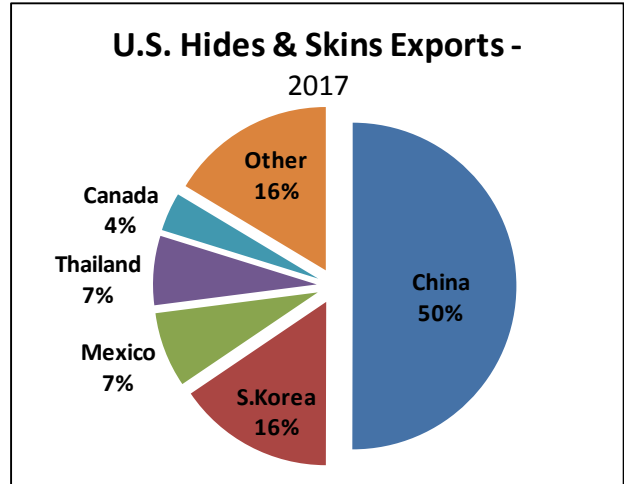
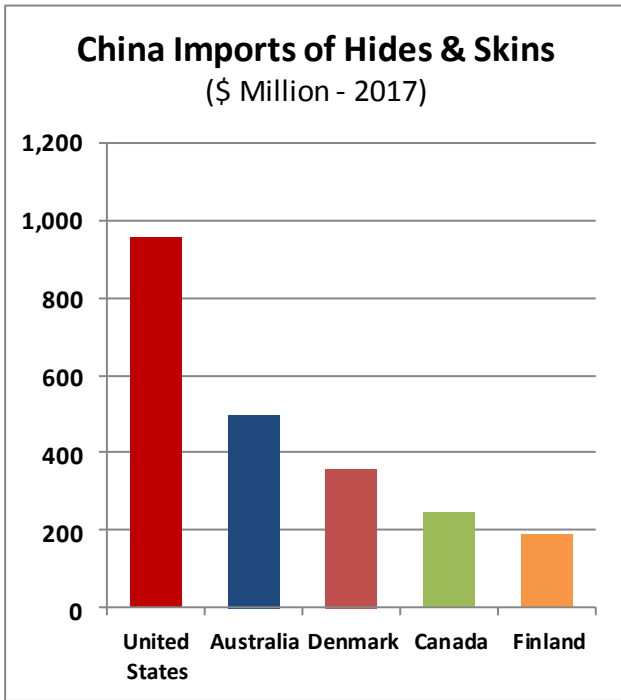
Tightening Environmental Regulations: Along with increased labor costs, both tanners and shoe manufacturers have reported that environmental regulations have tightened significantly over the past few years. Following decades of loose environmental policies, Chinese regulators are now reportedly clamping down on waste water, solid waste and gas released from tanners and shoe makers. Following the central government's direction on reducing production capacity, the environmental departments at both central and provincial levels have increased inspections of tanners and shoe plants and have reportedly forced many to suspend, shrink, or otherwise change production plans. In key water source regions, such as the Yangtze River Delta or Pearl River Delta, waste water release from tanners has been ordered to be restricted and reduced. In 2017, the central government announced a permit system for tanning waste water release, and each tannery has to apply for a permit for what and how much waste water it can release monthly.

Industry Consolidation: In part as a result of these regulations, many smaller tanneries that cannot comply with more stringent policies are closing down and analysts believe the local industry will continue to consolidate until only 20 or so large-scale tanneries are left in the industry.

Trade Tensions: In addition to the above factors, the uncertainty surrounding the ongoing trade tension between China and the United States is causing concern among the Chinese leather industry, both for imports of hides from the United States, as well as exports of finished products to the United States.

...But Will Still Remain a Huge Market for U.S. Hides

Despite the established downtrend in the Chinese leather industry, China remains by far the largest producer of leather and leather goods in the world and a key market for U.S. exporters. In 2017, roughly half of total U.S. hides and skins exports were shipped to China, reaching a total of \$945 million. The United States was easily the top supplier of this raw material for the Chinese leather industry. Key contacts in the leather industry are confident that the United States will remain an important supplier of hides and skins to China for the foreseeable future, and point out that no other exporting country can provide similar consistent quantity or quality for the Chinese industry.



Source: China Customs and U.S. Census Data