

Chinese leather industry remains dependent on suppliers

Car manufacturers as an important demanding group for German suppliers / shoe producers leave the country

Hongkong (bfai) – The leather industry of the People’s Republic of China needs a huge amount of skins and leather every year which is mainly imported from the USA, Australia and Italy. Aside, they have a high demand of special chemicals like tanning agent, oils and grease. In this section, German suppliers belong to the most important ones. Regarding machinery again, the People’s Republic is largely autarkic. For the production of suit cases and shoes they predominantly use Lowtech which can be nationally obtained for a good value.

China is possibly the globally biggest manufacturer and exporter of leather products. So, according to information of the responsible association, 3 bn pair of shoes, 66 million peaces of clothes and 550 million peaces of further leather goods were produced in the People’s Republic in 2006. Along come more than 700 million qm area-measured leather. A main part of the production doesn’t remain domestic. So 2007, China exported leather goods with an amount of more than 15 bn US\$. Bags and suit cases had a part of two-thirds of the total branch export.

But the leather branch faces a substantial change. On the one hand, labour costs within this wages intense industry increased rapidly. On the other hand, the high environment-polluting lowtech-branch is not welcome any more. New and expanding investments are not permitted any more, according to information of branch insiders. First companies had either to declare bankruptcy or moved their production abroad - preferably to Vietnam. The remaining enterprises merge to larger units at Beijings urging. In addition they shall increase their added-values.

But China’s leather industry is still highly dependent on foreign suppliers. In 2007, it imported branch goods - including chemicals and machinery – with an amount of nearly 7 bn \$, a plus of 9% compared to 2006. Raw as well as tanned skins and processed area-measured leather were responsible for about three-quarters of the branch imports.

China’s trade with leather and supplying products (million US\$)

	2005	2006	2007
Imports	5,552	6,439	7,015
Leather, skins	4,826	5,568	5,881
Leather goods and shoes	258	364	518
Chemicals and grease	374	430	475
Machinery	95	77	60
Exports	13,200	14,419	15,734
Leather, skins	1,568	1760	1,177
Leather goods and shoes	11,560	12,558	14,427
Chemicals and grease	48	59	72
Machinery	25	43	60

Source: Chinese custom statistics

The most important suppliers of raw and half-finished goods are the USA and Australia. Specially the United States highly increased their exports to “the middle empire” because of the weak US-Dollar. That differs regarding finished leather. In this case, tanneries from Europe, specially from Italy, can enlarge their position despite the altitude flight of the Euro. Even German special manufacturers have a good position in that business.

At the international leather fair in the self-governed region Hongkong in spring 2008, according to information of the German leather association the internationally most important event, the Italiens dominated with a broad range of high quality leather, but even with finished goods like bags and clothes. Totally, the south Europeans exported branch products with an amount of more than 800 million \$ to China in 2007, a plus of more than 20% compared to the previous year.

German suppliers had shipments with an amount of nearly 180 million \$, an increase of narrowly 10% compared to 2006. Specially with finished leather the sales in China are with around 13 million \$ comparably low. The biggest consumer is the automobile industry, according to information of the association. It requests leather for seats which needs to meet very high requirements.

Even regarding suit cases, bags and leather clothes German companies could hardly subtend anything to the strong competitors from Italy and even France, particularly because no German brand at all could establish at the Asian market. The corresponding supplies into the People’s Republic add up to only 7 million \$ in 2007, anyhow a plus of more than 40% compared to 2006.

People’s Republic of China’s imports of leather goods and supplying products according to supplying countries (million US\$, change to previous year and part of import %)

Countries	2007	Change	Part
USA	1,186,2	10.0	16.9
Italy	817.7	22.1	11.7
Brasil	634.0	8.8	9.0
Corea (Rep.)	578.7	-3.3	8.2
Taiwan	525.1	-5.8	7.5
Australia	407.6	20.5	5.8
Japan	213.8	15.9	3.0
India	213.2	28.1	3.0
Germany	177.3	9.5	2.5
Thailand	155.5	24.0	2.2

Source: Chinese custom statistics

Even if China is globally the biggest exporter of interieur goods, the furniture industry hardly plays any role as a consumer. In the People’s Republic only goods of the lower to the middle price section are produced. Domestic factories predominantly buy leather in the inland or from nearby Asian states.

An interesting niche market is the real estate section. Mainly with the furnishing of exclusive hotels huge amounts of leather are processed. International associations will open a few hundred five-star-houses in the People’s Republic between 2008 and 2010, so that the purchaser section expects high growth rates.

Concerning machinery for the leather and shoe industry the sales chances for foreign suppliers are very marginal, mainly because lowtech is required predominantly. Domestic companies supply

themselves with usually easy equipment and tools of the national production. The corresponding imports came only to round 60 million \$ in 2007, a decline of more than 20% compared of the previous year.

The situation concerning chemicals looks totally different. Chinese manufacturers willingly revert to tanning agents, greases and oil of foreign production. In total, the related imports grew in 2007 to more than 10%, nearly half a billion US-Dollar, not including dye, which is even used in the garment- and textile industry and can't be counted to the leatherbranch clearly. German suppliers are leading in the chemicals section.

Chinese imports of products for leather treatment (million US)

HS Code	Product name	2006	2007
3201, 3202	Extracts of tanning agent	174.4	183.3
.	From Germany	36.2	34.9
3403.11, 3403.91, 3405.10	Grease and oil for leather processing, shoe care product	255.5	291.7
.	From Germany	66.1	70.8
8453.10, 8453.20, 8453.80, 8453.90	Machinery for leather processing and shoe manufacturing	77.3	59.8
.	From Germany	3.5	3.4

Source: Chinese custom statistics

VR Chinas Branchenimporte (in Mio. US\$)

HS Code	Product name	2006	2007
4101	Raw skin and fur of cettle and other solipeds	1,203.7	1,290.1
.	From Germany	33.4	42.6
4102, 4103	Raw skin and fur of other animals	233.9	330.3
.	From Germany	0.4	1.2
4104	Tanned skin and fur of cettle and other solipeds	937.7	1,142.1
.	From Germany	0.8	1.5
4105, 4106	Tanned skin and fur of other animals	86.3	108.1
.	From Germany	0.0	0.3
4107	Leather of cettle and other solipeds	2,618.6	2,626.0
.	From Germany	12.3	12.4
4112, 4113	Leather of other animals	318.3	324.7
.	From Germany	0.5	0.2
4114	samic-, lacquer- and similar leather	137.0	114.9
.	From Germany	0.1	0.1
4115	Leather fabrics, cuttings and similar	32.8	26.0
.	From Germany	2.7	2.4
4201, 4204 bis 4206	Different leather goods Lederwaren	83.4	92.2
.	From Germany	1.0	0.7
4202	Suit cases, bags and similar leather goods	235.0	354.0
.	From Germany	4.1	6.3
4203	Leather garment	38.7	62.2

HS Code	Product name	2006	2007
.	From Germany	0.5	0.5
6403.20, 6403.51, 6404.20, 6405.10	Shoes, partly or totally made of leather	6.6	9.8
.	From Germany	0.0	0.0

Source:

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