

# Changes in China's Leather Upholstery Market

- ▣ In analyzing the Impact of China's new Tannery Environmental Regulations and its impact to the US, the writer also considers:
  - Total leather requirements of China to support Requirements of all Leather Production.
  - What percentage Upholstery Leather is of China's Leather Requirements.
  - Other Recent Factors which also impact China's Pricing of leather upholstery.

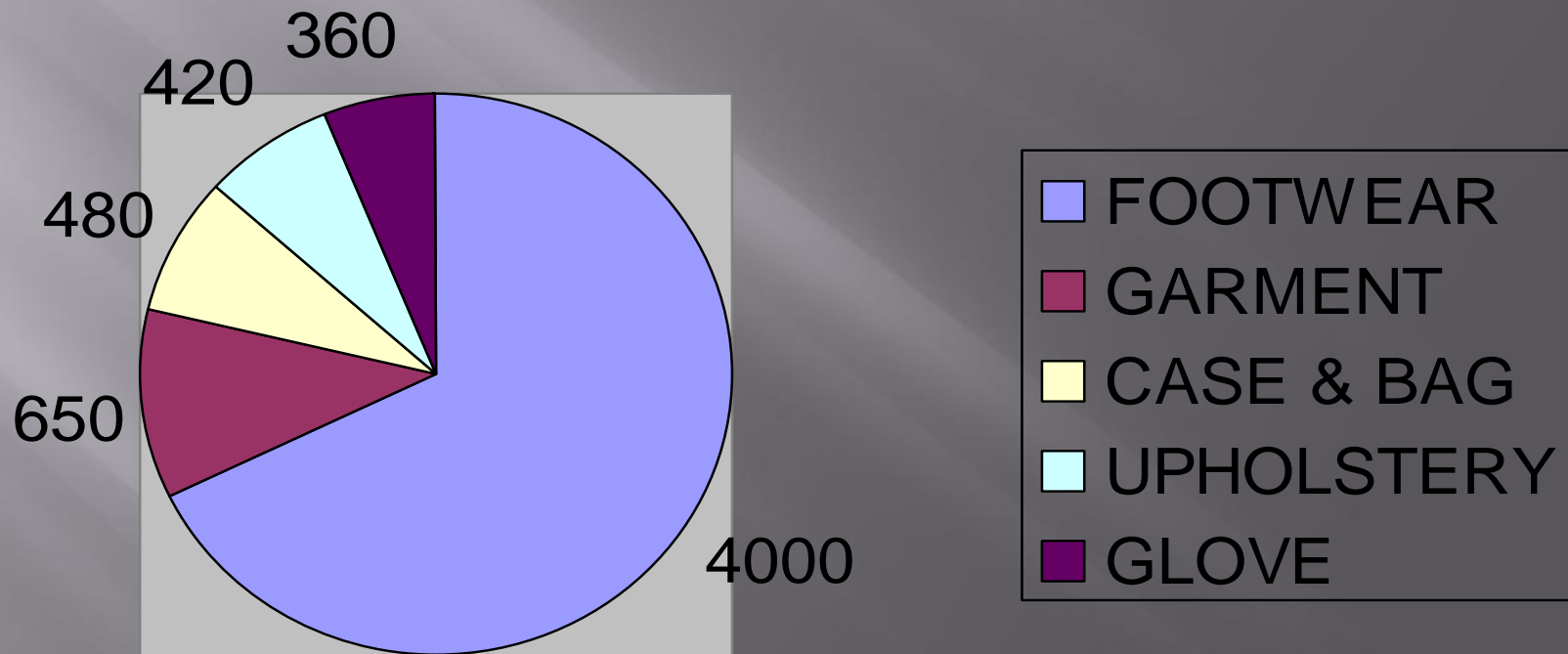
# RECENT CHANGES IN CHINA WHICH EFFECT YOUR PURCHASES THERE.

- 7% Currency Loss in exchange rate since 2005.
- 3+ % Reduction of Export Rebate.
- Increase in Import Duties.
- Regulations requiring Pollution Controls.
- Rising Labor Costs.
- China Leather Production is not enough to meet current Demands.

# China's Leather Requirements

- ▣ World market demand for Cow Hides is approximately 300 million hides, annually.
- ▣ China requires 70 million hides annually. (23.33% of the world total.)
- ▣ China's ranches only supply 20 million hides. The other 50 million come from import's of finished leather and raw hides.
  - Footwear is the major industry in China leather products, sharing up to 65% of the total quantity.
  - Upholstery Leather is 7% of the total requirements equaling demand of 49 million hides annually.

# China Major Leather Products Export Statistics Jan.—June 2006 (million US Dollars)



# Impact of New Pollution Regulations

- ▣ Most tanneries (as well as other industries) just dump waste into rivers and local disposal areas. China's rivers are heavily populated. The population depends greatly on the food chain of those rivers. China being a Socialist, people orientated society , welfare & contentment of the populace will take priority over industry.
- ▣ A complete Pollution Treatment facility costs the equivalent of US \$1.3 million dollars.

# China's New Pollution Regulations

- ▣ Published Feb. 21, 2006
- ▣ This regulation set up a time table for current tanneries to implement Pollution Controls.
- ▣ Existing will have 3 years to conform, by 2010.
- ▣ New tanneries must meet the requirements at inception.
- ▣ Failure to meet regulations carries possible penalties of:
  - ▣ Tannery closing.
  - ▣ Jail and possible death sentence.

# China's Leather Requirements

- ▣ China has approximately 400 tanneries.
  - 17 top of them have a monthly volume average of 26.5 million s.f.
  - 50 of them average of 4.75 million s.f. per month.
  - 37 of them average 0.64 million s.f. Per month.
  - The balance average, less than 0.5 million s.f. a month.
- ▣ Kasen is the top produce with about 65 million s.f. per month.
- ▣ The writer does not know of any government programs to support this transition yet, but assumes private investments will be made.

# Some Tannery Wet Operations Move to Vietnam

- ▣ Some of the larger tanneries have moved wet Operations to Vietnam to avoid the investment of pollution controls and enjoy benefits of labor & tax savings. (finishing operations will stay in China)
  - Vietnam & China belong to the "EAST ASIA ALLIANCE" which allows lower tax & duty trading than China.
  - Vietnam current labor cost average nationally:
    - ▣ \$50 per month, (some developed regions like Ho Chi Min average: \$120 per month versus China's rising labor rates of \$300 per month (developed regions: \$550)
    - ▣ While the labor and trade issues are attractive they do not over ride other issues.

# Negatives of Vietnam

- ▣ Raw materials and quality issues aside, Vietnam's leather tanners are simply unable to produce anything but a small portion of the growing domestic demand for leather.
- ▣ Although total production capacity of Vietnam's Wet Tannery production is reported to be greater than 22 million s.q.f. per year, (actual production is estimated to be less than half that amount)
- ▣ China will have to make significant investments in Vietnam to accomplish tanning there.

# Tannery Wet Operations Move to Vietnam

- ▣ Vietnam still face's the issues of:
  - ▣ Access to Raw Materials. (they have no significant Cow Population)
  - ▣ Experience in production.
  - ▣ Established customers.
  - ▣ Logistics
- ▣ While Tanning in Vietnam is an option for the larger Chinese Tanneries;
  - Smaller tanneries will close.
  - China upholstery factories will import more finished leather.
  - Leather Upholstery Prices will go up.