

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Amidst record high prices for U.S. hides Fujian remains a loyal and

Report Categories:

Export Accomplishments - Other

Exporter Guide

Market Development Reports

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Report Highlights:

Summary: In September 2012, Post encouraged the U.S. Hides, Skins and Leather Association (USHLA) to lead a trade delegation and to conduct a trade servicing activities in Quanzhou and Jinjinag, a prominent global manufacturing base for hides located in Fujian Province. Discussions on the latest market trends and product supplies helped buyers and sellers understand each other better and laid a solid foundation for sustainable trading. Amidst two-year record high prices for U.S. hides, Fujian continues to purchase hides at a record rate and now directly from the States instead of through Hong Kong brokers. In 2011, Fujian Province purchased \$176 million worth of U.S. hides.

General Information:

In September 2012, Post arranged meetings and site visits to some of the largest tanneries in China (and the world), located in Quanzhou and Jinjiang, Fujian Province. The trade delegation was supported by members of the U.S. Hides, Skins and Leather Association (USHLA). The visit was important in strengthening industry-to-industry communication and long term partnerships. It was particularly significant this year as world prices for hides are a three-year high and U.S. hides on a two-year high. USHLA staff addressed this issue first to a group of buyers of U.S. hides to confirm their partnership and discuss the high prices as explain this phenomenon as a cyclical part of the business. ATO Guangzhou assisted USHLA and industry conduct trade servicing activities by arranging meetings with key local industry and government leaders overseeing the transformation of the local manufacturing base.

Market Trends

Financing: ATO Guangzhou facilitated discussions on the latest market trends of the region and on the recent condition of U.S. supplies once they have arrived in the local tanneries. It is important to note that Quanzhou/Jinjiang's production has progressively moved up the value chain. Even though export-reliant enterprises have felt the pinch of the global recession, leather apparel sales are growing and so is demand for higher quality products that were previously only manufactured in Italy or the United States. (Comment: This brought up discussion on the possibility of exporting U.S. alligator hides and higher value U.S. dairy cattle hides.) And even as smaller operations go bankrupt, due in part to a reported lack of credit from local financial institutions, sourcing issues as a result of higher prices and tight supplies, or because of declining sales in the United States and Europe; the large companies are becoming stronger and increasing their purchasing volumes.

Environmental concerns: Many of the larger plants we visited proudly displayed their water recycling plants and environmental certificates. Factories producing lower-end products have also come under pressure by authorities who are cracking down on highly polluting companies who have not invested in waste and water treatment plants as stipulated in the newly enforced national environmental laws enacted back in 2007 with the establishment of the national State Environmental Protection Agency. And, this is another key market driver behind the exodus of many tanners from the region this year. As one trade leader coined it "going VIP" (or moving operations to Vietnam, Indonesia or the Philippines) is the direction many Taiwanese invested tanners are taking these days. According to the local industry group leadership, the large-scale tanners who can afford to outsource some of their heavy polluting operations, do so, but remain in the region to produce higher value products.

Direct importation and trade: National authorities have also increased pressure on Fujian authorities to limit the amount of grey channel trade. Whereas in the last ten years, half of the imported hides were purchased through brokers in Hong Kong, today, 75 percent of purchases are made directly by the companies and also imported directly into Mainland China. Though demand for "services" provided by Hong Kong brokers remains, industry consolidation trends (due to high prices and weak global demand) have significantly reduced the demand for these services in the last three years.

Conclusion: As China does not have sufficient supplies of many raw materials, the Quanzhou/Jinjiang story is just a microcosm of the bigger picture in a world manufacturing powerhouse that remains depend on foreign suppliers to keep the factories running and employment. In Fujian, there remains about 1,000 tanneries producing leather for apparel such as shoes, suitcases, and other accessories. China is not self-sufficient in hide supplies. USHLA reported that China is the largest market for importing hides, accounting for about 50 percent of all US hide exports globally. In 2011, Fujian Province purchased \$176 million-worth of U.S. hides exports. In fact, U.S. hides are the third largest U.S. agricultural exports to Mainland China after soybeans and cotton.