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ROAD TO RECOVERY?

How the leather sector will fare in 2021

Quality and sustainability drive German leather industry



Pictures: Gmelich

Germany's leather industry is known and respected for its high-quality products, innovation and often leading role on environmental issues. ILM Editor **Isabella Griffiths** reports on how the market has fared throughout the pandemic and the projections ahead.

According to the German Leather Federation (Verband der deutschen Lederindustrie - VDL), which represents the country's tanning industry, as of the end of 2020 there are 13 tanneries with more than 50 employees working in the domestic leather sector, with a total number of employees of around 2,000. Equally, according to research by the Trade Association for Hides/Leather (Wirtschaftsverband Häute/Leder - WHL), which represents the interests of hide and skin traders and marketers, there are 19 hide and skin traders in operation across 28 locations. The WHL estimates that around 70,000 cattle are slaughtered weekly in Germany. Most tanners process fresh raw materials and, therefore, source hides from domestic supply, with some also buying from neighbouring countries such as Austria and the Netherlands, though this is only a small percentage and the focus is predominantly on regional and local sourcing. Most German tanners cover the full process to finished leather and tend to concentrate on specialist market and product categories such as fashion (shoes, leather goods, clothing) and non-fashion, such as automotive, upholstery and other, with automotive being the largest market segment, followed by furniture, shoes and leather goods.

German hides are a popular choice thanks to their high quality; for instance, strict legislation regarding animal welfare facilitates not only a better quality of the raw materials, but also a high degree of traceability, according to Sebastian Werren, Managing Director, WHL. “Companies sourcing from Germany will be provided with hides and skins of premium quality in terms of selection, flay and general condition. Animal welfare is of very high importance in Germany; it is even ingrained in the German constitution. This contributes to a better marketability of hides and skins from Germany and consequently the products that are derived from it”, he tells ILM. “European law requires all cattle in the EU to be identified by an ear tag. At slaughterhouses in Germany, a skin number is assigned to each skin obtained. Hide traders can use the skin. The slaughterhouse can in turn use the slaughter number to establish a link with the ear tag and thus with the animal. Traceability is therefore guaranteed”, he adds.

This is echoed by Andreas Meyer, Managing Director, VDL, who also believes that some of the advantages of German leather compared to those from non-EU or developing countries is the strict legislation which encompasses all aspects of the leather supply chain, including traceability, raw materials, chemical usage, occupational health and safety, workers’ rights, environmental regulation as well as consumer protection. “When purchasing leather from Germany specifically, but this also goes for the whole EU, you do not just simply buy leather, you purchase a host of added values. This does not come for free.



Those who source more cheaply need to understand the reasons why they are buying cheaper”, he says.

Market performance

The German leather industry, like its counterparts across the world, has been facing one of its biggest challenges to date with the outbreak of the Covid-19 virus and subsequent lockdowns, cancellations of orders and decreased demand for meat on the one end of its supply chain, as well as finished leather products on the other. This come on top of an already strained industry in the preceding years, which affected both the hide and skin segment, as well as tanners. According to the VDL, accumulated turnover of the leather industry (domestic and foreign) for the first ten months of 2020 was just under €230 million. “This is a reduction of 23% compared with the same period in the previous year”, says Meyer. In the period to October 2020, two thirds of the German leather output was for export, while one third was sold domestically.

Meyer says that even though the pandemic has thrown up unprecedented difficulties for the industry, the trading environment had already been difficult in the preceding years. “2019 was a more unpleasant year for leather, but at the end of 2019, the demand for leather had risen slowly. So, at the

beginning of 2020, the expectations were optimistic, demand was on the up, and we were all hoping for a better year ahead. Of course, by March we saw the first period of lockdowns”, he tells ILM. However, he points out that the German leather industry had already been taking steps to prepare and adapt for the future and has therefore been in a solid position to absorb some of the fallout from the pandemic. “For instance, a lot of investment was channelled into sustainability and in times like these, this has paid off. Although many tanners had to introduce work rotas on reduced hours, overall, stable employment levels were maintained. If we compare the first ten months of 2020 with the same period in 2019, we have a decrease of 6% in employment. There was only one tannery that temporarily closed down, but if our information is correct, it was not due to Covid-19 but to undergo investment and improvements in order to reopen in due course”.

The tanner perspective

Christian Wiesner, CEO of German tanner Gmelich & Söhne, paints a similar picture as Meyer. “At the beginning of the pandemic, order volumes dropped significantly, and we had to implement reduced work hours throughout our whole operation. However, once we got through the initial lockdowns, order volumes increased, and we actually had to introduce a six-day working week at times just to keep up”, he says. In the main, Gmelich, which was founded in 1923 and employs 150 people,



specialises in upholstery leather for the transport sector, such as private jets and trains, processing around 650 to 750 hides from raw to finished per day and around 750,000 sq ft of leather per month. In 2019, around 55% were sold to the domestic market, and 45% for export, with the U.S. its top export country.

The company predominantly sources South German hides from bulls and cows within a radius of 400km from the tannery. “South German cattle offer bigger cuts as well as fewer injuries or insect damage. It also means we do not need to conserve the hides with salt; due to the short distance from the slaughterhouse to our tannery, we can use fresh hides and can track the raw material all the way back to the farmer or animal, if necessary”, he explains. “Gmelich is one of the very few tanneries worldwide that is able to trace the supply chain all the way back to the farmer.” Wiesner says Gmelich is “existentially dependent” on animal protection and animal welfare. “Only healthy and well-treated animals provide hides and skins that our customers would like to see processed as leather on their sofa, as shoes or as a jacket. It is precisely this quality of raw materials that enables us to manufacture premium Gmelich leather and to differentiate ourselves from mass-produced overseas goods. For this reason alone, careful and gentle handling of the animals is extremely important to us”.



Alongside animal welfare, sustainability and environmental safety are important areas, with Gmelich having implemented a number of steps, including: an in-house waste treatment plant, the use of the whole hide with very little waste and close cooperation with a local biogas plant which converts its waste such as meat and fat offcuts, while gelatin is sold on for further processing, and shavings from wet-blue are sold on to manufacturers of bonded leather; water-conserving processing and constant investment in energy-saving modern machinery.

According to Wiesner, after the initial drop in sales at the start of the pandemic, towards the end of 2020, the market for upholstery leather was “very good”, boosted in no small part by the fact that consumers are spending a lot more time in their homes and are therefore investing in high-ticket items and interiors. With its focus on premium hides, Gmelich appears well placed to service this demand, though Wiesner points out that prices are under pressure: “Customers want to have big, clean hides for a low price. Low-quality selections have barely any takers and are not selling well at all”, he says. Looking ahead at 2021, he expects that the boost in the upholstery market is likely to skim off once the immediate crisis is averted, as “other activities will be more important to people, such as travelling, and therefore they will spend less money on new leather furniture”.

The hide trader perspective

Similar to Gmelich tannery, traceability, animal welfare and sustainability are also an important and growing focus at hide and skin marketer A+B Hides, which is a member of the OSI group, a global supplier of custom value-added food products with its own slaughterhouses in Europe. Carsten Cleven, Sales Manager, says that more and more customers ask questions about the origins of the hides and how the animals have been treated and slaughtered, and all of its suppliers and partners are working according to European laws, although due to the Data Protection Act, A+B is not always allowed to provide detailed data such as names of the farms. However, the company has implemented a traceability program, which means that a share of its hides - on request - can be tracked from birth through the slaughterhouse to finished leather.

A+B Hides sells fresh and wet salted hides, wet-blue and wet-white, sourced from the group's own slaughterhouses as well as partners from the meat industry. The company supplies all

major leather using segments, including automotive, furniture, as well as footwear and leather goods, with a 35/65% breakdown between domestic and international sales. According to Cleven, a lasting impact on the hides and skin sector following the coronavirus outbreak and global lockdowns, especially in China and Europe, has been a reduced slaughter rate, particularly due to the closures of the hospitality sector. However, demand from the automotive and furniture industry has somewhat recovered, though availability and slaughter rates are still limited. For 2021, Cleven expects reduced levels of slaughter to continue, but is overall optimistic that demand for premium raw materials from Germany will always prevail: “Slaughtering in Germany will decrease further, but with regard to the raw hide sector, German hides are at the top end quality wise, so there will always be demand and a future for them, in my opinion. Crucial, however, to the future of the sector will be that people understand the fact that hides are merely a by-product of the meat industry and that using them is a sustainable, ethical and sensible lifestyle choice”.

Economic outlook and key challenges

This is in line with VDL's forecast, with Meyer staying upbeat but cautious and predicting a further decline in overall turnover of the leather industry. “At the end of 2020, we are registering a decline in turnover of 20 to 30%. In terms of expectations for 2021, due to the continued uncertain situation, the rise in infection rates once more, and weeks of new lockdowns, nobody wants to be too optimistic. We expect to come out with a minus in turnover of around 10% on 2019 levels and a reduction of soaking and finishing of 10 to 20% on 2019. But the overall mood is still positive”, he tells ILM. “One encouraging trend we are noticing is that thanks to its price and longevity, interest in leather is slowly on the up again, both from brands, but also from consumers who want to live a more sustainable lifestyle. At the moment, this is not enough to compensate for the prolonged reduction in demand that we saw previously, but it is a good sign”, he adds.

According to Meyer, issues outside of the Covid-19 pandemic that are putting pressure on the German leather sector include the discussion around CO₂ and the allocation of leather's carbon

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footprint, the misuse of the term leather by alternative and synthetic materials, as well as increasing regulation and restrictions of chemical usage, which “are not based on hazards or risks, but a lack of information and extreme safety requirements”, as Meyer says, “which do not make the product any safer, just purely more expensive”.

WHL's Sebastian Werren, meanwhile, adds the negative image of leather as a key factor. “Unfortunately, leather is increasingly seen in a bad light. It is important that leather is perceived as the sustainable and environmentally friendly product that it is”, he says.

While the key challenge ahead remains overcoming the pandemic and the return to some sense of normality in the short term, Germany, with its continued focus on ESG, environmental improvements, animal welfare and premium quality assurance, appears on a good footing to remain one of the key players in the international leather arena. |