**INTERNATIONAL COMPETITIVENESS AND VALUE CHAINS IN SELECTED MANUFACTURING SECTORS STUDY**

# A Preliminary Study on the Bovine Leather Value Chain in South Africa

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# Foreword

The Industrial Restructuring Project (IRP) was initiated at the beginning of 1996 as the KwaZulu-Natal Industrial Restructuring Project (KZN IRP). The project initially focused exclusively on KwaZulu-Natal, but is now aimed at supporting industrial policy in South Africa at the national, provincial and local levels. It is facilitated by international experts and is based at the School of Development Studies, University of Natal Durban. The project has two important features. Firstly, it focuses on critical issues that are impacting on the competitiveness of manufacturing sectors that are under threat from increased international competition and the liberalisation of the South African trade regime. Secondly, it is action-oriented in design. The findings that have been generated have, for example, been presented to numerous industry stakeholders, including government, business associations and trade unions. The project consequently has the support of various regional and national stakeholders.

This particular report/working paper has arisen out of both new research and the cumulative knowledge that has been generated from previous studies. These cover a number of IRP reports, working papers, journal articles and conference papers. Some of the themes covered include South Africa's manufacturing competitiveness, the automotive industry, the clothing and textiles sectors, footwear, middle-management capacity, human resource development, institutional support for industrial restructuring, and business services for manufacturing competitiveness. Enquiries regarding IRP material should be addressed to: The Librarian, Centre for Social and Development Studies, University of Natal, Durban, 4041. Tel: 031 2601031; Fax: 031 2602359; email: masmith@nu.ac.za. This report can be downloaded for free at http://www.nu.ac.za/csds/ (click on publications).

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# Contents

# List of figures

# List of tables

# Executive summary

**Purpose and scope**

The purpose of this report is to provide a *preliminary* overview of the key trends, challenges and opportunities facing the leather industry of South Africa. It is a broad-brush overview of the industry intended to provoke discussion and provide some data for further policy making. By its very nature it has many unanswered questions and omissions and does not claim to be in any way definitive.

**Methodology**

Data was collected using four main techniques: First, a variety of stakeholders within the industry were contacted and interviewed including employer associations, unions, the National Bargaining Council of the Leather Industry and consultants. Second 39 firms responded to a short fax questionnaire requesting data on products made, type of leather used, use of synthetics, number of employees, turnover, ownership, imports of raw materials, exports of finished goods, key challenges and strategies. The results of this survey are included throughout this report especially in the section on general leather goods (p. 29). Third, open-ended discussions were held with representatives of 12 firms on the particular issues facing them at present. Finally, data was collected from a variety of secondary sources such as Customs and Excise, the National Bargaining Council for the Leather Industry and the South African Footwear and Leather Industry Association.

**Change within the leather industry**

The leather industry in South Africa has changed radically during the last decade. Whereas it was historically orientated towards the manufacture of footwear and general leather goods, it is now primarily focused on the production of automotive upholstery. This report argues that the key difference between growing parts of the leather industry and declining parts of the leather industry is that of export and domestic market focus. Whereas the automotive upholstery sector exports almost all of the goods it produces, the footwear and general leather goods sectors have continued to rely on the domestic market. The problem is that much of the domestic market has been lost to cheap imports from the Far East manufactured with poorly paid labour.

This change within the leather industry is explored in terms of the four mains sectors of the industry. The following summarise the key points identified by each section:

**Section two: Summary of key issues in Skins hides and leather**

- **Quality of hides:** While hide quality is reasonable by world standards, certain changes could be implemented by those who look after the animal during its life and those who prepare the hide in order to improve quality.
- **Availability of hides:** There is a shortage both globally and domestically of hides. The demand for hides by the automotive sector out-strips the number of cattle slaughtered locally.
- **Price of hides:** The price of hides is determined on the international hide market. The price of hides on this market has increased over the last two years, reversing the trend of the previous few years. The advent of foot and mouth disease has also fuelled this increase. In South Africa, these increases are exaggerated with the depreciation of the Rand. Local buyers of hides including wet blue tanners and leather finishers have found it increasingly difficult to offer the same price buyers abroad are prepared to pay.
- **Exports:** The export of skins, hides and semi-processed leather generates substantial foreign earnings for South Africa. Yet, in the context of the previous point on hide prices, some sections of the tanning industry believe the export of hides should have some barriers in order to ensure that raw materials are available for local downstream activities.
- **Imports:** The importation of raw hides takes place to make up the shortfall of locally available hides. Most agree that this should be encouraged and facilitated. However, the importation of

finished leather is more contentious. On one hand there is a residual footwear tanning industry which is attempting to compete with cheap dumped leather from abroad. On the other hand, this cheap leather is a raw input into the footwear and general goods sectors which are themselves struggling to be competitive against cheap imported finished goods.

- **Tanning overcapacity:** There is an over-capacity of wet blue and footwear finishing facilities in South Africa due, in part, to the shortage of raw material and the decline of some downstream industries.

**Section three: Summary of key issues in automotive upholstery**

- **Export focus:** One of the key aspects of the automotive industry is its export focus. It is not dependent in any way on the domestic end-consumer market.
- **Quality of raw materials:** Raw materials are identified as the most frequent cause of quality problems.
- **Cost of raw materials:** The hide price is cited as one of the main restraints on the further growth of the sector.
- **Future significance of MIDP:** Although some seat manufacturers believe they are becoming competitive in their own right, the MIDP incentive is likely to remain a key factor in future decisions by assemblers of whether to keep this business in South Africa.
- **Dependence of tanneries:** Should the automotive upholstery sector fail, it is likely to result in the collapse of the tanning industry. South Africa would become like Australia which simply exports raw hides without any value adding.

**Section four: Summary of key issues in general leather goods**

- **Domestic focus:** Unlike the automotive industry, the general leather goods sector is dependent almost exclusively on the domestic market.
- **Domestic market conquered by cheap imports:** Cheap imports (legal, dumped and smuggled) have penetrated the South African market for general leather goods thus displacing domestic manufacturers.
- **Declining employment:** Due to the loss of business for firms, the number of firms and employees has decreased.
- **Raw material supply:** The cost, quality and availability of leather inputs is a major inhibitor to the competitiveness of general goods manufacturers. This has resulted in growing use of imported leather and synthetic inputs.

**Section five: Summary of key issues in footwear**

- **Domestic focus:** As with the general goods sector, the footwear manufacturing sector continues to rely on the domestic market.
- **Loss of domestic market to imports:** The domestic market is no longer the exclusive domain of domestic manufacturers due to competition from cheap, dumped or smuggled imports.
- **Raw materials:** Imported leather is increasingly being utilised in order to reduce the cost of inputs. Due to the protected nature of the leather industries in source countries, this leather can be imported at cheaper prices than it can be made in South Africa.
- **Informalisation:** In order to compete with manufacturers in the Far East, South African footwear manufacturers have found various ways of operating outside of National Bargaining council agreements, by outsourcing to unregistered firms or adopting a COFESA model. Consequently, this informal sector labour is paid less than formal sector labour.

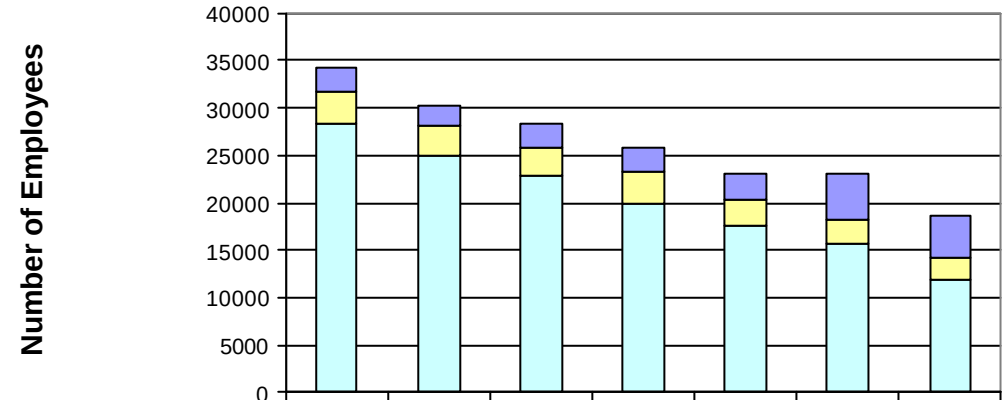
# 1 Introduction: Overview of the Leather Industry

The landscape of the South African leather industry has been fundamentally changed over the last decade. During the early 1990s, the 12 or so bovine tanneries were primarily orientated towards providing raw material for the several hundred footwear manufacturers, and to a lesser extent manufacturers of general goods and furniture, who made goods for the domestic market. Since that time a number of crucial changes have impacted on the industry:

- Drought in the early 1990s.
- The deregulation of the Meat Board.
- The relaxation of import controls on leather and finished goods.
- The new emphasis on exporting products ranging from raw hides right through to finished goods, especially as a result of the governments Motor Industry Development Programme (MIDP).
- The depreciation of the Rand.
- Hide price fluctuations due to external factors such as BSE and foot and mouth disease.
- Institutional changes to employer and employee associations.[1]

These pressures have resulted in variety of changes taking place including a radically different employment profile, as the following data shows:

**Figure 1: Summary of number of employees registered with the National Bargaining Council**




| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Tanning | 2481 | 2097 | 2412 | 2691 | 2713 | 4820 | 4344 |
| General goods/handbags | 3410 | 3183 | 3040 | 3167 | 2716 | 2458 | 2287 |
| Footwear | 28351 | 24878 | 22841 | 19990 | 17537 | 15742 | 11972 |

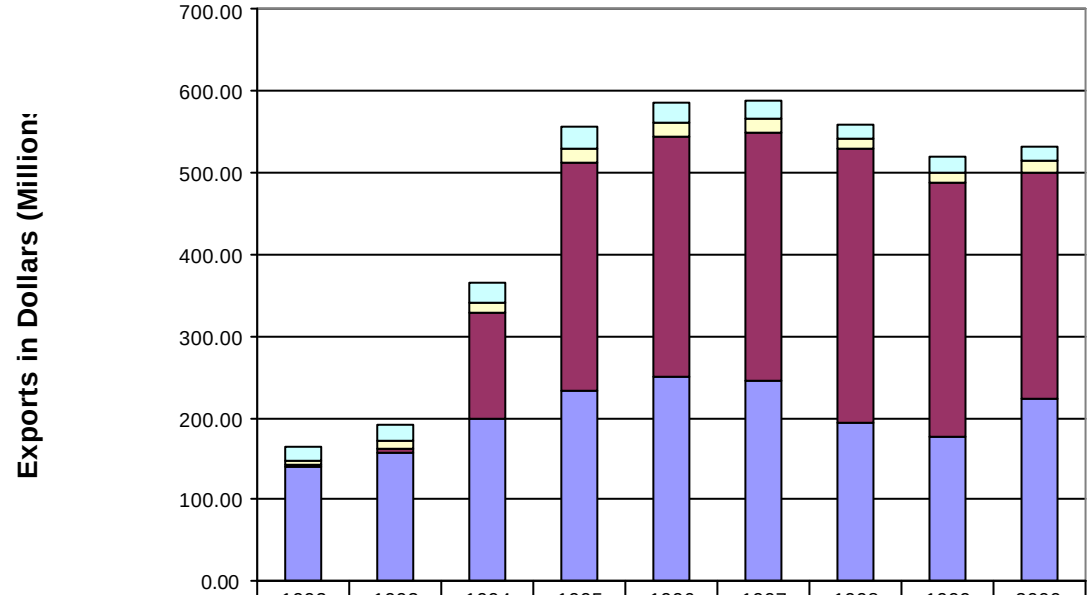
[1] The Skins, Hides and Leather Council (SHALC) – a longstanding body representing tanners and shippers in South Africa – has been downscaled in the last few years, joining forces with the South African Tanners Association which represents members to the government and the National Bargaining Council. The Footwear Manufacturers Federation of South Africa (FMFSA) reformed as the South African Footwear and Leather Industries Assocation (SAFLIA) with the intention of opening itself to non-footwear manufacturers. The Leather Industry Research Institute based in Rhodes closed in 1999 although training continues at the newly formed International School of Tanning Technologies and several LIRI staff have continued to operate as consultants. Finally the National Bargaining Council of the Leather Industry of South Africa has had its jurisdiction extended to the whole country as of February 2001.

This graph does not represent all employment as it has two very important omissions. One is the growing informal footwear sector which, by definition, is not captured by the National Bargaining Council but which, according to some estimates, may employ as many people as the formal sector does. The other omission is the sectors that are not registered with the National Bargaining Council, including those factories that sew automotive upholstery. This would add several thousand employees to the total.

What the graph does show, however, is that the pressures created by these and other changes have created an entirely different leather industry. Now only one major tannery, along with several smaller tanneries, produce leather for the footwear sector. The footwear and general leather goods manufacturing sectors have experienced factory closures and job losses. Yet despite the decline in demand for leather from footwear, the tanning sector in South Africa has been growing. This is because it has been able to supply a growing niche in the international automotive industry; namely that of leather seats for luxury cars. Therefore the past dominance of the footwear industry has been eclipsed by the arrival of the automotive upholstery sector.

In general, export-orientated parts of the industry have thrived while domestically orientated parts have declined. Exporting sectors include not only automotive upholstery, but raw and semi-processed hides, and other types of leather such as ostrich and sheep. All together, the leather industry generates in excess of half a billion US Dollars of foreign earnings for the South African economy.

**Figure 2: Summary of exports from various parts of the leather industry**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Ch 64: Footwear | 16.73 | 19.50 | 25.78 | 25.91 | 26.04 | 22.01 | 16.41 | 18.93 | 17.36 |
| Ch 42: Leather goods | 6.86 | 8.68 | 11.06 | 16.29 | 17.42 | 17.40 | 13.01 | 13.92 | 13.71 |
| Auto upholstery | 2.03 | 4.07 | 130.57 | 281.08 | 293.14 | 305.60 | 335.84 | 310.25 | 277.62 |
| Ch 41: Hides & Leathers | 139.14 | 158.24 | 198.85 | 232.36 | 250.05 | 244.13 | 192.77 | 176.85 | 223.24 |

The domestically orientated sectors of the industry such as footwear and general leather goods have suffered due to their dependence on the domestic market and the rapid penetration of cheap imported goods into that market. These imported goods are able to undercut South African goods as they are manufactured in parts of the world which have a variety of competitive advantages, such as protected

upstream tanning industries, subsidised manufacturing, very cheap labour and low standards of environmental protection.

The purpose of this report is to identify some of the key challenges and opportunities facing various sectors of the leather industry in South Africa. As this introduction has already made clear, the leather industry in South Africa is not a single homogenous industry but consists of a number of sectors whose interests are not necessarily the same. In order to identify these various interests and examine the relationships between them, this report makes use of a schematic value chain, which will be outlined later in this introduction. Before this, however, it is useful to consider briefly the new economic landscape within which the leather industry now operates.

## 1.1 'Globalisation' and the new economic operating environment

Globalisation can be defined as *the process whereby distance is becoming less of a barrier to social, cultural, and economic interaction.* Through technological advances within communications and transport, interaction between far away places – whether physical (face to face meetings) or virtual (through communications technology such as email) – can now take place relatively inexpensively and easily. In economic terms, globalisation has had two different sets of impacts. Firstly, it has a set of impacts on production. Whereas in the past a whole product might have been made in one factory, it now may be made using components and stages of manufacture from all over the world. Secondly, globalisation impacts on consumption, and the way international trade is being encouraged and enabled. Under the watchful encouragement of multilateral organisations such as the World Bank, International Monetary Fund (IMF) and World Trade Organisation (WTO), protectionist trade barriers are tumbling around the world. This process of 'trade liberalisation' is attempting to promote international trade, as opposed to the inward focus that characterised most economies in the past.

The post-apartheid democratic government of South Africa has also adopted this route of 'trade liberalisation' and the decade of the 1990s witnessed a fundamental economic shift from a closed economy protected through import substitution, to an open economy attempting to benefit from growth through exports. However, international trade is rules-based (Hanival & Hirsch 1998: 4), which means that in order to gain access to foreign markets, the government had to undertake to allow foreign producers access to South African markets. This meant a reduction in the protection from import tariffs. In 1996, the board embarked on a five year Tariff Rationalisation Process which aimed to simplify and reduce one of the most complex protective structures in the world (Holden and Casale 2000: 4).

The implications of this process for previously protected businesses are that they are no longer competing just with other domestic producers but rather are forced to compete with all producers in the world. Previously safe in their monopoly of access to the domestic market, manufacturers now have to contend with a far larger set of competitors, and are being encouraged themselves to compete for offshore markets. In South Africa, some industries such as the automotive sector appear to be responding well to this competitive challenge, while other industries including textiles, clothing and footwear have found this considerably more difficult (Kaplinsky and Morris 1997, Harrison *et al.* 1997). Unlike more capital intensive and high-tech industries such as the automotive industry, the barriers to entry are lower in textiles, clothing, and footwear, where all one needs are a few sewing machines to get going.

Although the forces of globalisation are essentially beyond the control of individual stakeholders in a particular country, this need not necessarily mean that all have become victims of it. The challenge is

to discover ways in which local actors can engage with the global economy in a way that is beneficial to them.

1. For example, it is possible to survive in a higher wage environment by not competing on price. Higher wage European countries such as Italy and Portugal continue to be significant footwear producers by offering niche products rather than mass produced products (Harrison *et al* 1997: 11)
2. Furthermore, it is also necessary to adopt flexible and efficient production systems to respond to the increasingly dynamic market (Harrison *et al* 1997: 11). No longer are products mass produced over long periods of time, but there is an emphasis on a larger variety of products for the same volume of units produced. This is a situation that is suited to capital expenditure and a skilled workforce rather than low wage labour.

### *1.1.1 A value-chain interpretation*

Value chain analysis provides a useful model for conceptualising the performance of various parts of the leather industry within the context of South Africa's entry into the global economy. According to this literature, 'industrial upgrading' is forced on manufacturers who become exposed to international commodity chains (Gereffi 1999, Kaplinsky 1998). Therefore, participation within a global commodity chain – particularly focusing on export of goods manufactured – is the necessary, although not sufficient condition, for firms to enjoy the benefits of export driven 'industrial upgrading'. The lowest 'rung' on the export-focused hierarchy is the assembly of imported inputs for exports, as organised by the buyer. Upgrading would be achieved through transitions to original equipment manufacturing, where the design is still specified by the buyer but the manufacturer has more control over manufacturing and inputs, and then to original brand name manufacturing where manufacturers develop their own brands. Upgrading is defined as 'a process of improving the ability of a firm or an economy to move to more profitable and or technologically sophisticated capital and skill-intensive economic niches' (Gereffi 1999: 52).

From a 'value chain' point of view, the automotive upholstery industry can be seen as successful for several reasons. First, it is almost exclusively export focused. Second, it is manufacturing Original Equipment for demanding buyers. Third most of the value adding is taking place within the borders of South Africa. Socio-economically, this sector has succeeded in its provision of thousands of relatively well paid formal sector jobs and the earning of foreign exchange revenue for South Africa. Much credit must, of course, go to the Motor Industry Development Programme (MIDP) for ensuring a high level of local value adding, but firms involved are increasingly convinced that they are becoming competitive in their own right.

The footwear and general goods sectors have not succeeded from a value chain perspective as they are almost exclusively domestically focused. At this stage, many are not even participants of global commodity chains, which is a necessary condition for 'upgrading' (Raikes *et al*. p. 4). For the majority that have retained a domestic orientation, the general lack of interaction with overseas buyers and international commodity chains has meant that they have not embarked on the steep learning curve required for upgrading towards full-package or original equipment supply for overseas markets. This failure to become export orientated is a particularly acute problem since large parts of the domestic market have been taken over by cheap imports. The current response, especially of parts of the footwear industry, is towards the informalisation of labour in order in an attempt to compete with cheap imports. Informalisation is the inevitable result of a continued inward focus since domestic markets lend themselves to extensive penetration from cheap Far Eastern imports.

Being labour intensive and relatively low-tech, the footwear and general goods industries are typical examples of buyer-driven value chains, as opposed to producer driven value chains such as various hi-tech industries. According to Gereffi,

> 'Profits in buyer-driven chains derive not from scale, volume, and technological advances as in producer-driven chains, but rather from unique combinations of high-value research, design, sales, marketing and financial services that allow the retailers, branded marketers and branded manufacturers to act as strategic brokers in linking overseas factories with evolving product niches in the main consumer markets.' (Gereffi 1999: 42)

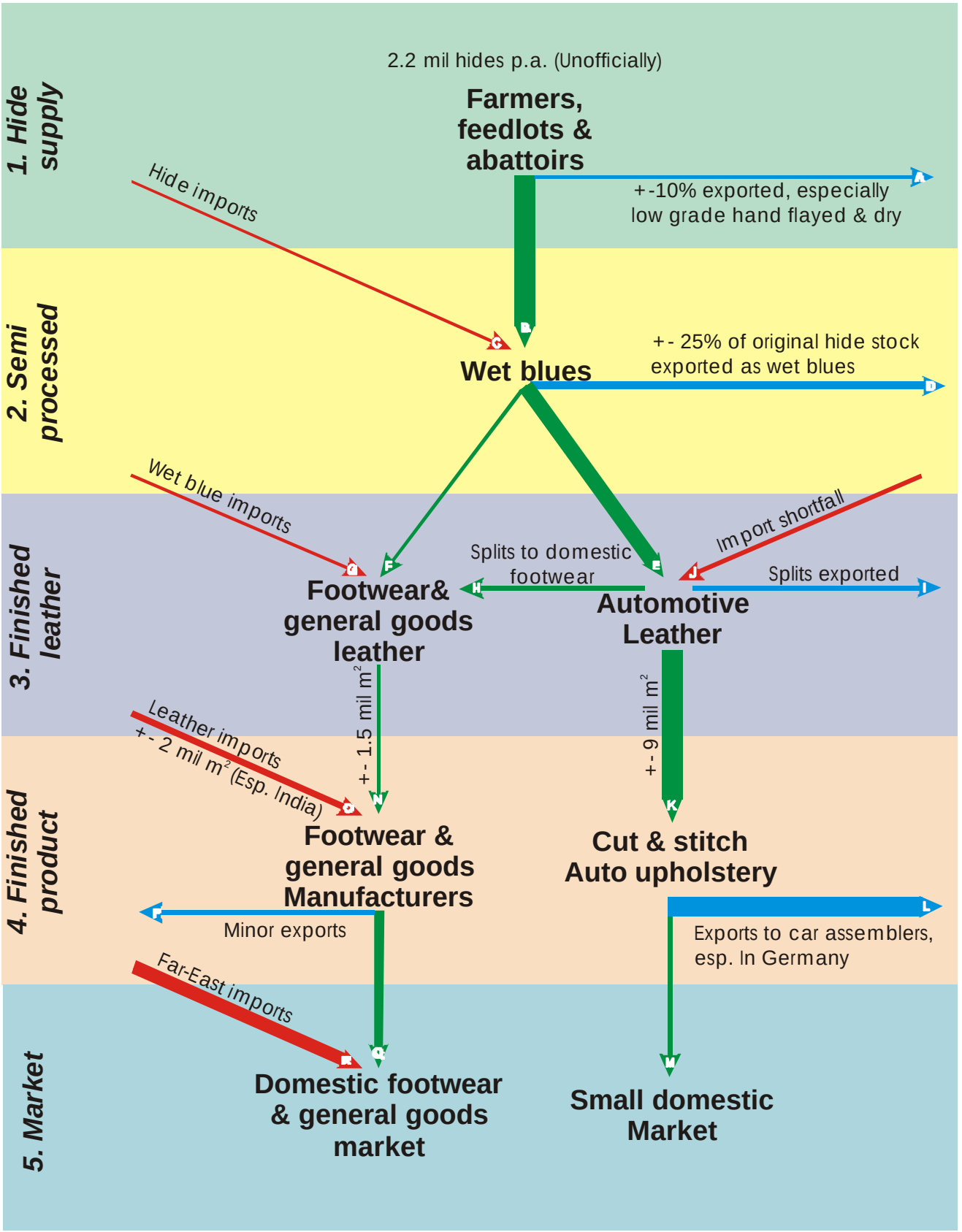
A brand is the key to accessing major markets of affluent nations. It is likely that South African manufacturers are several steps away from being able to market their own brands abroad on an extensive level and would therefore do better to explore the possibility of manufacturing for the buyers of existing brands. In order to become linked with global footwear and general goods value chains these manufacturers need to develop strategic relationships with the significant buyers in the major markets of the industrialised countries. As the Africa Growth and Opportunity Act (AGOA) trade agreement with America lowers import duties on goods imported form South Africa to the US, and as the Rand continues to depreciate, South African producers may become more attractive to US buyers and this would be the lever to establishing such relationships. If any marketing is to be done at all, it should be the marketing of South African manufacturers and experienced labour to overseas buyers, rather than South African products to overseas consumers.

Some South African footwear and general goods manufacturers are quick to blame the cost of labour in South Africa as the major inhibitor of future progress. However, Gereffi (1999: 49) points out that there has been an expansion in the market share of apparel producers who pay their labour higher wages than Chinese producers as they are driven by innovation and knowledge rather than price. The success of these producers is explained to some extent by exchange rates and trade policies. It can also be explained through the strategic building of 'economic and social networks between buyers and sellers' (Gereffi 1999: 51). For value chain analysts, cheap labour is a 'lower-order, dead end' basis for competitiveness (Raikes *et al*: 7). Growth based on cheap labour has been described as 'negative flexibility' (Fryer *et* al) and 'immiserising growth' (Kaplinsky 1998: 7). We can therefore suggest that South African manufacturer's obsession with the cost of labour is a miss-identification of the problem and they should rather be concentrating on export orientation, pitching to brand buyers, manufacturing advances, flexibility, speed, quality, inventory control, customer relations and other higher order competitiveness initiatives.

## 1.2 Leather value chains in South Africa

Having briefly assessed the fortunes of the leather industry within the context of recent economic change, it is now useful to undertake a schematic 'mapping exercise', which identifies and positions the various parts of the leather industry in relation to one another. Figure 3 positions the four main sections of the leather industry in relation to one another and their markets. Tanneries occupy the second and third bands, while footwear, general goods and automotive upholsterers occupy the fourth. While the following sections of this report refer to this diagram in more detail, the remainder of this introduction will introduce the value chain.

**Figure 3: The Bovine Leather Value Chain - 2000**




(Arrows: blue = exports, red = imports, green = value chain within SA)

The value chain depicted in Figure 3 is divided into five stages: hide supply, semi-processed leather, finished leather, finished products, and the market. The various operations are linked by a series of arrows showing imports (red), exports (blue) and transfers down the value chain within South Africa (green). Arrows have different thickness in order to schematically portray the relative volumes of outputs and inputs into the various parts of the value chain.

One of the main features of the diagram is two streams within the value chain: one leading to automotive upholstery and the other leading to footwear and general goods. Although the latter are entirely separate sectors, their fate over the last decade has been somewhat similar and they have been subjected to many of the same pressures. They have therefore been combined for the purposes of this exercise.

In order to show exactly where these two streams separate, it is necessary to separate the tanning process into two distinct stages. The first stage of tanning takes raw hides and tans them into semi-processed leather (Arrows B & C). The second stage takes semi-processed hides and re-tans them into finished leather ready for use by a variety of manufacturers (Arrows E & F). The type of finished leather used in automotive upholstery is very different from the type of leather used in footwear and general goods. It is therefore common to find a separation of the tanning process between different types of tanneries, between those producing only wet blues, those producing for footwear, and those producing for automotive use.

The orientation of bovine finishing tanneries has altered dramatically over the last decade (stage 3). Whereas in the past they were producing leather for footwear, general goods and furniture manufacturers, most are now producing leather for the automotive upholstery manufacturers (Arrow K). There is now only one major and several small footwear leather producers left in the country. The reason for this is that the footwear manufacture section itself has shrunk due to cheap imports (Arrow R) and the remaining footwear manufacturers are turning to imported leather for their inputs (Arrow O).

The South African tanning industry has a complex relationship with local downstream manufacturers. While they do indeed provide the inputs for these industries (arrows N and K), especially the automotive upholstery industry, downstream manufacturers such as footwear are also increasingly sourcing leather from abroad (Arrow O). Furthermore, the products of South African tanneries (leather, semi-processed hides and even raw hides with no value adding) are exported as products themselves and do not go to downstream value adding activities (Arrows A, D and I).

## 1.3 Report Structure

### *1.3.1 Scope*

This report takes a broad-brush approach in its attempts to identify the major trends, challenges and opportunities that currently face the industry. It does this by providing both original data from a survey conducted and relevant secondary data. Particular emphasis is placed on employment levels, import penetration of finished goods, export of finished goods, raw material supply, and informalisation within some sectors.

This report serves only as a *preliminary* study on the leather industry, and is not a definitive and conclusive statement on all aspects of the industry. It is intended to provoke discussion and supply data on the industry, which will contribute towards future policy and decision making.

Note that, according to the terms of reference for this report, the bias is towards bovine leather as the DTI is likely to implement a specific study on the ostrich industry. Having said this, ostrich leather is discussed at some stages of the report.

Furthermore, it was also decided that the focus of primary data collection would be on the general leather goods industry as very little data existed on this sector. Primary data was also collected on tanneries and automotive cut and stitch operations but not on footwear as substantial data already exists within this sector due to the existence of an employer association which employs a full time economist.

### *1.3.2 Sections*

Leading directly on from the description of the value chain set out in this introduction, the following four sections explore the details of each stage of the value chain under four headings.

- The second section on skins hides and leathers examines stages 1 to 3 of the value chain diagram. This includes an overview of tanneries and an examination of imports and exports of skins hides and leathers.
- Stage 4 of the diagram is examined over sections three to five. Section three reviews the automotive upholstery sector, providing a profile of cut and stitch operations, the MIDP and export growth.
- Section four reviews the general leather products sector, providing a profile of general leather manufacturers, examining the decline of this sector, and discussing key challenges such as the penetration of imports, the failure to export and raw material supply.
- Section five looks at the footwear sector, providing a profile of firms, examining the decline of the sector, key challenges including the penetration of imported footwear, the failure to export and the trend towards informal employment.
- Section six offers preliminary considerations for the way forward in terms of further research and points for policy implications.

A considerable amount of supplementary information is contained in the appendices. Detailed breakdowns of Customs and Excise data on import and exports is provided in section 8.1 (skin, hide and leather), 8.2 (general goods) and 8.3 (footwear). Details of items listed under the various relevant customs and excise chapters are detailed in section 8.4. Also included are details on import duties for each item. Finally a description of the approach to data collection for this report is contained in section 8.5, followed by sample questionnaires sent to firms.

# 2 Skins, Hides and Leathers

This section deals with tanneries, which fit into stages 2 and 3 of the 'value chain' presented in Figure 3, namely the manufacture of semi-processed leather and finished leather. Tanning has been a growth sector in South Africa despite the demise of its traditional downstream customers of footwear and general goods manufacturers. This is due to the recent arrival of the automotive upholstery sector, around which at least 70% of bovine tanning activity now revolves. As well as automotive upholstery, an important new trend that will be highlighted in this section is the export of hides at various stages of the tanning processes.

## 2.1 Description of the value chain – stages 1-3

### *2.1.1 Stage 1: Hide Supply*

Stage 1 in this diagram is the hide supply. Official statistics state that there are around 1.8 million slaughters of cattle a year, however this number only captures the slaughtering that take place in formal abattoirs. If the supply of hides from rural areas is included, the hide supply could be above 2 million, with estimates ranging as high as 2.5 million.

The bulk of the hides that are produced in South Africa go onto the next stage of processing (Arrow B on Figure 3). However, around 10 to 15% do get exported (Arrow A). These tend to be hand-flayed dry salted and sun dried hides produced in rural areas outside of official abattoirs. Exporters argue that the reason they should be exported is that they are low grade hides and South African tanneries have little use for them. However, there have been complaints in recent years that good quality feedlot hides are being exported rather than channelled into domestic processing for the automotive industry (SHALC nd).

**Hide price:** Since hides are a global commodity, the price of hides is determined on the world market for hides. In other words, farmers and abattoirs are not in control of the price of their product. At present, there is a general shortage of hides due to the stagnant or even decreasing number of animals slaughtered domestically and in many parts of the world. BSE and Foot and Mouth disease have contributed to this shortage. It is uncertain whether Foot and Mouth is causing an actual shortage or whether shortages are coming from 'panic buying' by hide merchants and tanneries in anticipation of shortages, or even to deliberately force up prices.

Although hide prices are meant to be universal, arguments have been made that the MIDP has inflated the price of hides (SHALC nd). This occurs because the MIDP provides an incentive for using local raw materials and suppliers of hides are therefore likely to exploit this increased value of their product.

**Quality:** Hides produced in South Africa are of varying quality. While not as good as hides produced in places like Germany, where animals sleep in barns because of the weather, South African hides are on a par with hides produced in places such as Brazil, Argentina and Queensland, Australia.

Positive aspects of the quality of South African hides:

- Some hides produced in South Africa come from feedlots where the animals spend their last few months relatively safe from damaging thorn trees and ticks and giving previously acquired wounds a chance to heal.
- South African tanners comment that, in comparison to some countries, South African animals are slaughtered and flayed well in formal abattoirs, in a way that provides a good shape and maximises yield.
- The splits from South African hides have a tight fibre structure, which makes them stronger and ideal for conversion into certain types of leather, such as suede.
- The types of cattle farmed in South Africa are the non-hump types of cattle, unlike many other parts of the world where humped species such as Brahman are more dominant. Non-hump cattle are more suitable for use in the automotive upholstery as the hump produces an awkward shape and it is difficult to generate the large panels necessary for automotive industry.

Negative aspects of the quality of South African hides

- South African hides do get damaged by the 'African bush' (acacia trees, barbed wire and ticks) during the life of the animal. Many animals do not go to feedlots, which means that they may be slaughtered with unhealed wounds on their hides. Due to the shortage of hides, these non-feedlot hides often command the same price as feedlot hides. Tick bites are, of course, preventable with regular dipping.
- The Department of Agriculture encourages branding of animals in order to control stock theft. Each time an animal is branded, it can waste as much as a square foot of the hide. It is also branded on the rump, which is the best part of the leather. The Skins, Hides and Leather Council has approached the Department of Agriculture in order to find a way of avoiding this wastage.
- The South African meat industry tends to slaughter cattle at a younger age than some parts of the world, which means there is about $1m^2$ less leather than would be produced, for example, from South American cattle.
- Since the end of the Meat Board and the deregulation of the industry, standards of hide preparation at abattoirs have, in some cases, deteriorated.

There have been attempts to reward better prepared hides in the past, but these have failed as the high quality supplier tries to buy in hides from other producers and pass them off as their own. Also, problems arise if the word spreads that there are different prices being paid for hides as all suppliers demand the highest available price.

### *2.1.2 Stage 2: Semi-processed hides*

Stage 2 is the production of semi-processed hides. As well as using South African hides at this stage (Arrow B), tanneries also import some hides (Arrow C). At wet blue tanneries, hides undergo the first stage of tanning, which effectively preserves the hide as a semi-processed leather. As its name suggests, it is wet and a pale blue colour, which comes from the chromium salt used to tan the hide.

During discussions with tanners, concerns were raised that there was an over-capacity of wet blue tanning in South Africa. One estimated that although only around 2.2 million hides are produced in South Africa, there is a capacity to process 3.8 million hides a year at wet blue facilities.

Once they have passed through stage two, hides can travel in one of three directions: footwear tanning (Arrow F), automotive tanning (Arrow E) and exports (Arrow D). Although it is difficult to estimate the proportion of the 2.2 million hides exported at this stage, one exporter estimated that it was between 10 and 20%, while another estimated that it may be as much as 40%. Exporters insist that, as with the export of raw hides, the only semi-processed hides that are exported are low-grade hides, including rurally produced hand-flayed hides. Once again, however, there is some concern that high grade wet blues are being exported.

The depreciation of the Rand has been a key incentive for tanneries to export hides. Since it is a globally priced commodity, every depreciation of the South African currency translates into higher revenues per hide exported even if the global price remains constant. It is likely that there would be a demand for these hides within South Africa if they were available at a lower price, but since foreign buyers are prepared to pay more than local buyers as a result of the exchange rate, they get exported. For example, before the foot and mouth crisis abroad, wet-blue hides in South Africa would sell for around R13.5 per kg whereas they could fetch R18 or R19 per kg abroad. Now that the foot and mouth crisis has struck, overseas shortages are set to further exacerbate this situation.

### *2.1.3 Stage 3: finished leather*

**Automotive re-tanning:** Those semi-processed hides that stay within the country go to two different kinds of 're-tanners' which turn the wet blues into finished leather. The type of finished leather depends entirely on the product that it will become part of, which is why leathers tend to be separated at this stage. The bulk of good South African hides are made available to leather finishers or re-tanners making leather for the automotive industry (Arrow E). According to one estimate, 60-70% of the hides produced in South Africa are suitable for use in automotive upholstery. Yet this is inadequate for automotive needs, which is why the shortfall of high quality wet-blues has to be imported (Arrow J).

Even though the automotive tanners get access to the bulk of hides, automotive upholstery only uses part of the hide. The part that they use is the outer layer of the hide (or the 'grain'). Therefore the inner layer of the hide (known as the flesh split or second split) is a by-product of automotive tanning. Sometimes, the flesh split is separated from the grain split by the wet blue tannery (stage 2) but this is often done on behalf of an automotive re-tanner (stage 3). Once separated from the grain, the flesh split is either made available to the footwear re-tanners (Arrow H) or is exported (Arrow I).

According to one estimate, large automotive oriented tanneries are working with around 10 000 hides a day. Increasingly they are trying to add more value themselves and are now even cutting the leather into kits ready for sewing in the stitching operations. Therefore, they are moving into parts of stage 4 of the value chain diagram in their provision ready-cut leather.

**Footwear/general goods re-tanning:** While not suitable for automotive upholstery, the flesh split is widely used in footwear manufacture. It can be used in at least three ways:

- **Suede:** is the velvety appearance of the fibres of this part of the hide used as a leather on some shoes or parts of shoes
- **Painting:** flesh splits can be coated with paint and then have grains embossed onto them.
- **Tektan** (the local trade mark for Permair): flesh splits are glued to polyurethane foil, which already has the appearance of a grain.

Many of the flesh splits produced from the automotive industry have been made available to the South African footwear tanneries (Arrow H). However, increasing volumes of flesh splits from the automotive industry are now also being exported to places such as the Republic of China where there is a huge demand since this region does not have a significant domestic supply of hides (Arrow I). This is a trend that concerned smaller footwear tanners as their raw material is becoming increasingly scarce.

Early in the 1990s there were around 11 or 12 footwear tanneries. At present there is only one large tannery and several small tanneries, with most of the others having switched to automotive tanning. There are two reasons for the decline in footwear leather finishing. The first is the decline in the footwear sector itself (see Section 5, below). The second is that the remaining footwear manufacturers have largely switched to using imported leather for the manufacture of shoes (Arrow O). The penetration of imported leather has taken place purely on the basis of price. Due to various government policies, countries such as India, Pakistan, Brazil and Argentina are able to produce very cheap leather – a deliberate attempt to promote downstream industries within those countries through the availability of cheap leather. For example, India – which has the largest cattle population in the world – banned the exports of raw hides and wet blues until the year 2000. Only the export of finished leather was permitted. This suppressed the price of their leather and it is therefore very cheap. In 2001, under pressure from the WTO, the ban on the export of wet blues has been lifted, but a 60% export duty has been placed on wet blues thereby replacing the 'ban' with an equally prohibitive measure. The ban on the export of raw hides remains in place.

As a consequence of the protection placed by many countries, South African re-tanners find it very difficult to import wet blues for re-tanning here. The price of these wet blues is several times more expensive than the locally available wet blues due, in part, to the export duties imposed by the exporting countries.

The result of the relatively high cost of local footwear leather is that South African footwear manufacturers are now by-passing local footwear tanneries in favor of cheaper imported leather. According to one estimate, footwear manufacturers want to pay around $1.20 to $1.50 per square foot for their leather inputs. They are able to buy at this price from India as India protects their raw material. They are not willing to pay the $1.80 to $2, which is the cost local footwear tanneries are able to achieve.

Several tanners also stressed that not all of the benefits of cheap imported leather go to footwear/general goods manufacturers. Very often the importers mark up the cheap imported leather to just below the local price and keep the difference themselves. This particularly affects SMMEs who are forced to rely on importers.

Hides make up the main part of the cost of producing leather. One footwear finishing tannery said that hides made up around two thirds of its costs. Therefore it believes that the reason why it is not able to compete is due to the fact that it does not have access to cheap hides in the way that tanneries in places like India do. Tanneries specifically requested that the DTI urgently implement anti-dumping procedures against unfairly priced imported leather.

An issue also related to hide price is the fact that automotive upholstery producers receive benefits from exporting their seat covers and are therefore effectively able to pay more for their hides. The footwear re-tanners receive no such benefits and hides are therefore more expensive for them. One

footwear tannery reported that it was now importing about two thirds of its wet blues from places such as Australia, Brazil, Zambia, Venezuela, and even Thailand (via Italy) (Arrow G). However, it would prefer to use domestic hides as they would not have to plan so far in advance and they would have more consistent quality.

### *2.1.4 Other types of leather*

**Vegetable tanning:** Vegetable tanning is an alternative way of preserving hide. Instead of using chrome, tannins from sources such as wattle trees are used to preserve the leather. The equivalent of 'wet blue' in this process is a 'wet white'. This leather is preferred by some craft manufacturers such as gun holster makers as it is more mouldable than chrome tanned leather which has a tendency to return to its original shape. It is also a fashionable leather in some markets as it is seen as a more environmentally friendly and natural way to produce leather.

Until recently, there was a large vegetable tanner in Pietermaritzburg employing around 100 people. However, this tannery closed at the start of 2001 citing, amongst other reasons, cheap imports of the same product and the scarcity of good quality hides due to the automotive upholstery sector. The closure of this tannery has left many downstream manufactures of goods without access to raw materials. One business owner in particular stated that his firm was in crisis mode and may well close their business due to a lack of raw materials. Help may come from a newer tannery in Pietermaritzburg, which is doing vegetable tanning at a smaller scale.

**Ostrich leather:** Unlike bovine hide, ostrich skin is not a by-product of the meat industry but rather the ostrich meat is a by-product of the skin. At present the farmer gets around R1300 for a skin whereas s/he gets R500 for the meat. Once processed, a fully tanned first grade skin is worth $20 per square foot (about R2600 for a skin), whereas a low-grade tanned skin will still sell for R1500. Despite this apparently high price one ostrich leather tanner stated that it was a buyer's market and that there was not a shortage of skins.

Although the majority of skins do come from South Africa there are also many that come from elsewhere such as Australia, Sweden, Belguim, Spain, Portugal, Scotland and Switzerland. The skin is brought to South Africa for finishing as this expertise is not necessarily available in the countries where the skins come from. Alarmingly, however, this ability is currently being transferred by South African ostrich tanners who are training Koreas on the art of tanning ostrich leather.

Much of the finished ostrich leather produced in South Africa is exported to countries such as Mexico, Japan, Korea, Hong Kong rather than utilised locally by down stream manufacturers. It is used to make clothing, bags, shoes, etc.

Concerns were raised that there was an over-capacity in the ostrich leather tanning sector and that new tanneries were being established without a secure source of skins.

**Sheepskin:** Very few finished sheepskin products are produced in South Africa, other than a few operations making sheepskin slippers, chamois leather and industrial gloves. The overwhelming majority of sheepskin is exported.

**Pig skin:** Unlike places like China, South Africa does not have a significant supply of pigskin as this tends to be part of the sale of meat and is therefore not a by-product of the meat industry.

## 2.2 Profile of tanneries in South Africa

While the above provides a general overview of trends, challenges and opportunities within the tanning sector, the remainder of this section will offer some numerical detail to flesh out and concretise some of these general statements.

At present there are 20 firms registered with the National Bargaining Council employing 4344 people. This represents a substantial growth since the mid 1990s in the number of tanneries and the average number of people each employs.

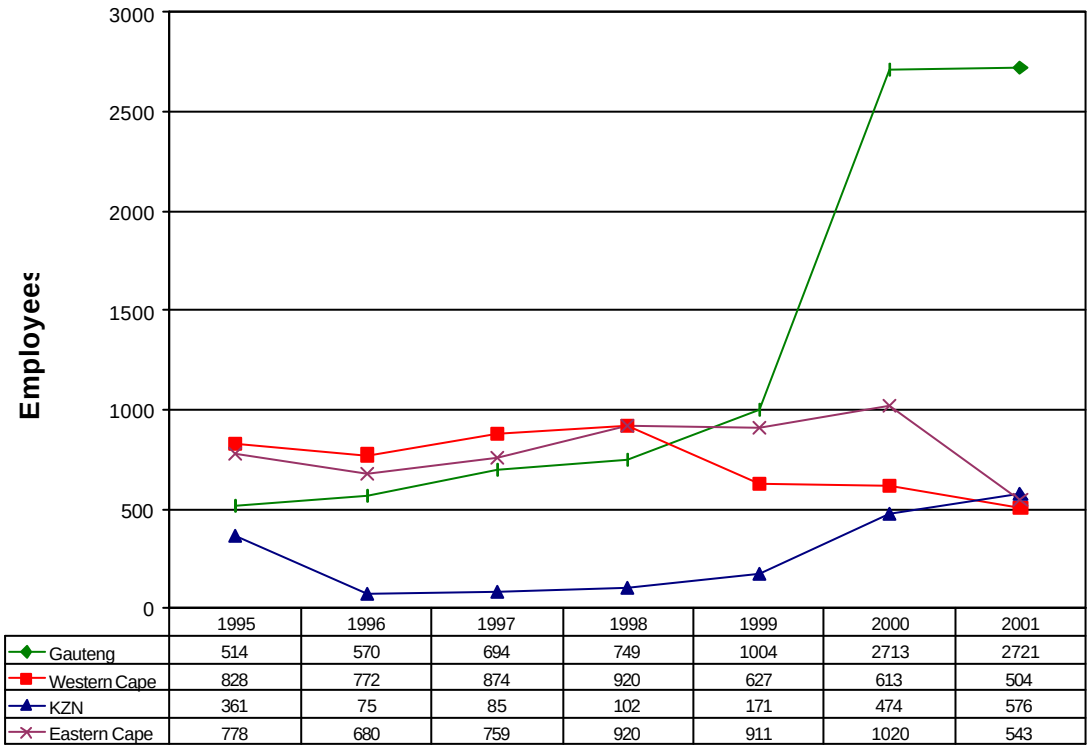
**Table 1: Employers and employees in tanning sector**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | % change 95-01 |
|---|---|---|---|---|---|---|---|---|
| **Employers** | 14 | 13 | 15 | 17 | 17 | 22 | 20 | 30.0 % |
| **Employees** | 2481 | 2097 | 2412 | 2691 | 2713 | 4820 | 4344 | 42.9 % |
| **Ave. frm size** | 177.2 | 161.3 | 160.8 | 158.3 | 159.6 | 219.1 | 217.2 | 18.4 % |

(Source: National Bargaining Council of the Leather Industry of South Africa)

While the Eastern and Western Cape have shown declines in the number of employees in this sector since 1998, KwaZulu-Natal and in particular Gauteng/the Northern province have increased. The latter is now dominant in terms of the number of people employed in the sector.

**Figure 4: Regional change in employment in tanning**




| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Gauteng | 514 | 570 | 694 | 749 | 1004 | 2713 | 2721 |
| Western Cape | 828 | 772 | 874 | 920 | 627 | 613 | 504 |
| KZN | 361 | 75 | 85 | 102 | 171 | 474 | 576 |
| Eastern Cape | 778 | 680 | 759 | 920 | 911 | 1020 | 543 |

Eight tanneries responded to a questionnaire sent out for the purposes of this report (see section 8.7 p. 79). Sixteen questionnaires were sent out in total. Although there are 20 tanneries registered with the National Bargaining Council, there are as many as 34 according to other lists. There are 14 ostrich

tanneries, one main footwear finishing tannery along with several smaller ones, about six tanneries finishing leather for the automotive industry and a number of wet-blue facilities.

The number of people employed in these tanneries averaged at 297 people and ranged from 45 to over 1000. While four firms reported increased numbers of employees since 1996, four stated that the numbers of employees had declined. Reasons given for this included a lack of demand for the finished good for which the leather was used, competition from imported leather and automation within the tannery.

Half (4) of the tanneries surveyed were located in the Eastern Cape. The remainder were located in Gauteng/the Northern Province, Western Cape, and KwaZulu-Natal. Most of these tanneries processed leather from several different types of animals, although bovine leather was dominant as can be seen from Table 2.

**Table 2: Types of leather manufactured**

| Type | No. |
|---|---|
| Bovine | 6 |
| Sheep | 2 |
| Ostrich | 3 |
| Reptile | 0 |
| Game | 2 |

Of the 8 companies that responded to the questionnaire, 2 stated that they only used domestically produced skins and hides. The remaining four imported between 3 and 63 % of their inputs averaging at 31.1 %. Four of the firms stated that they had increased the proportion of imported inputs over domestically procured inputs since 1996. One said that this proportion had declined while three (including the two that did not presently import) stated that the proportion of imported raw material had remained stagnant.

In most cases, leather was taken through to its finished stage at the tanneries surveyed. However, it was also frequently sold in a semi-processed state. In one case, a tannery was also wholesaling raw skins & hides. On average, the tanneries were running at 70.25% of their capacity.

**Table 3: Stage of processing at tannery**

| Product type | No. |
|---|---|
| Raw hides & skins, salted, pickled | 1 |
| Wet blue/semi processed | 4 |
| Finished leathers | 5 |

Automotive upholstery and footwear were the two most frequent uses of leather from these tanneries, followed by general leather goods, garments, sports goods and protective clothing.

**Table 4: Types of products in which leather is ultimately used**

| Product type | No. |
|---|---|
| Automotive (car seats, steering wheel covers, gear lever covers, etc) | 4 |
| Garments (Jackets, skirts, pants, hats, etc) | 1 |
| General leather goods (wallets, filo-faxes, handbags, luggage, belts, accessories, etc) | 3 |
| Sports goods (balls, gloves, saddlery, etc) | 1 |
| Footwear (shoes, shoe components) | 4 |
| Furniture (Leather lounge suites, upholstery, etc) | 0 |
| Protective leather clothing | 1 |
| Holsters and gun bags | 0 |

Tanneries varied greatly in terms of turnover. While some were turning over in excess of R50 million, there were some smaller players turning over little more than five million. Three tanneries of varying sizes provided their actual turnover and this averaged at R26,080,973.

**Table 5: Turnover category of tanneries surveyed for the year 2000**

| Turnover Category | No. |
|---|---|
| Less than R 5 million | 0 |
| R 5-10 million | 1 |
| R 10-20 million | 3 |
| R 20-50 million | 1 |
| Above R 50 million | 3 |

There were a variety of ownership structures amongst tanneries. While the majority were owner managed or private companies, two were subsidiaries of domestic companies and one was a subsidiary of a foreign company. Tanneries were asked whether they would like increased foreign investment in their tanneries. Of those that answered, five said no, one said yes.

**Table 6: Ownership status of tanneries**

| Ownership type | No. |
|---|---|
| Subsidiary of Domestic Company | 2 |
| Subsidiary of Foreign Company | 1 |
| Independent: Ltd or Private Company | 2 |
| Owner-Managed (Proprietor or Partnership) | 3 |
| Joint Venture with Foreign Firm | 0 |

The findings of this profiling exercise, provided for illustrative purposes, highlight the great diversity within the tanning industry. Tanneries range from relatively small owner-managed operations of 50 people right up to multi-nationals employing more than a thousand people. They worked with various types of skins and hides but were predominantly bovine orientated. They also made leather for a variety of uses, but concentrated on footwear and automotive.

## 2.3 Imports

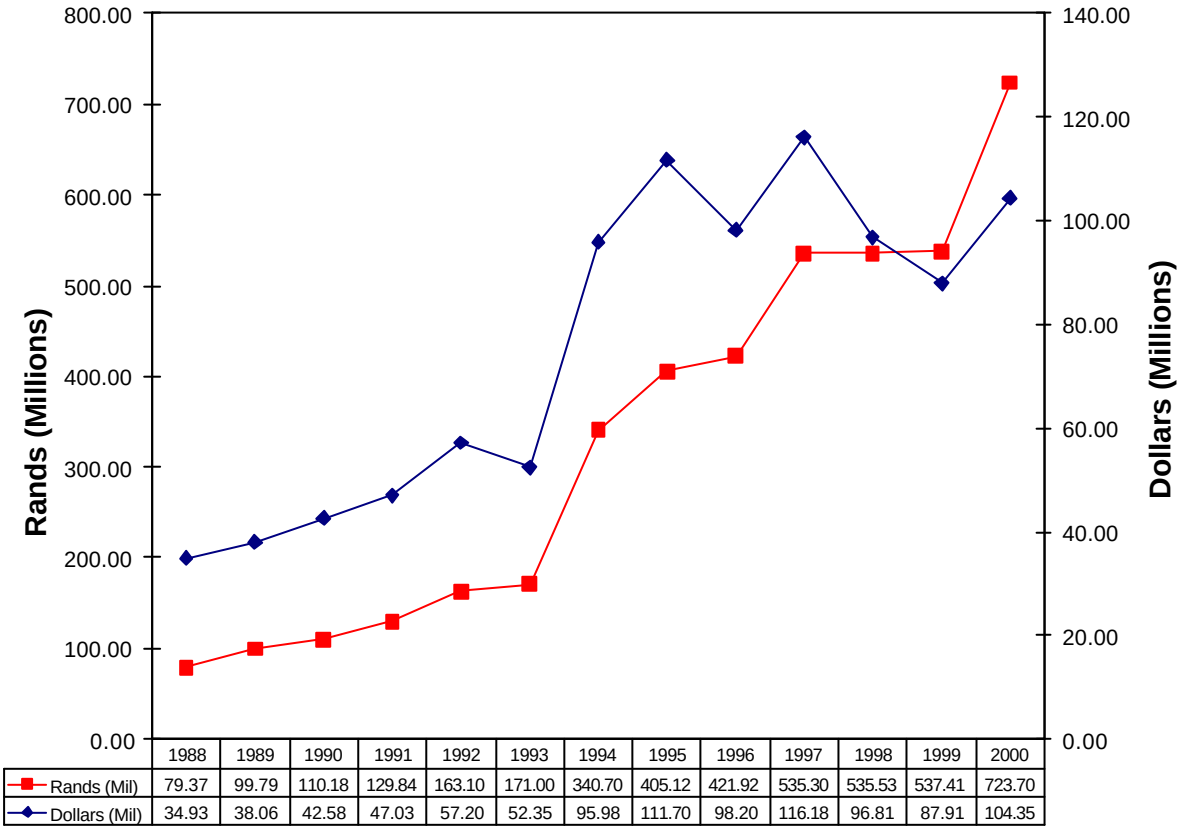
In order to provide numerical figures for the import and export arrows (A D I, C, G, J) of the value chain in Figure 3, it is useful now to turn to data calculated by Customs and Excise.

**How to use Dollar/Rand graphs:** Aggregate import and export data presented in this report uses the format seen in Figure 5. Note that there are in fact two graphs super-imposed on one another. The red line (with squares) is the Rand value and needs to be read against the left axis, while the blue line (with diamonds) is the Dollar value and should be read against the right axis. The two scales are

completely different and the purpose of super-imposing is not to compare levels but the shape of the graph. If only the Rand value was presented, it would not be possible to tell whether actual increases or decreases are taking place or whether the graph is just a product of the deterioration of the value of the Rand. It is therefore recommended that the Dollar value be used as a more reliable measure of the actual value of imports and exports.

Figure 5 depicts Customs & Excise data on imports of items listed under Chapter 41, Skins, Hides and Leathers. In order to see a detailed list of these items, turn to Table 28 (p. 70) in the appendix. The graph shows that imports of hides, skins and leather more than doubled in Dollar terms between 1993 and 1995. While the Rand value suggests constant increases in the value of leather imported, the Dollar value indicates that the level in 2000 was in fact slightly lower than the peaks of 1995 and 1997. This is confirmed by an analysis of the quantity of imports, which reveals a peak of 24.8 million kilograms in 1997. The level in 2000 was around 24 million kilograms (see Figure 21 and Figure 22 on p. 57 for a break-down of volumes exported).

**Figure 5: Imports of items listed under Chapter 41: raw & semi-processed skins and hides and finished leather**




| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rands (Mil) | 79.37 | 99.79 | 110.18 | 129.84 | 163.10 | 171.00 | 340.70 | 405.12 | 421.92 | 535.30 | 535.53 | 537.41 | 723.70 |
| Dollars (Mil) | 34.93 | 38.06 | 42.58 | 47.03 | 57.20 | 52.35 | 95.98 | 111.70 | 98.20 | 116.18 | 96.81 | 87.91 | 104.35 |

(Source: Customs & Excise data from http://www.tips.org.za/tradedata/TradeMain.htm ) [2]

As can be seen in Figure 19 and Figure 20 (p. 56 in the appendix), a break down of various types of leather shows that the bulk of the value of imports depicted in the above figure comes from the

[2] The Dollar value was calculated from the Rand value using exchange rate data was obtained from the Reserve Bank's Quarterly Bulletins. The annual Dollar exchange rates are as follows: 1988 $1=R2.2726; 1989=R2.6222; 1990=R2.5877; 1991=R2.7609; 1992=R2.8516; 1993=R3.2667; 1994=R3.5492; 1995=R3.627; 1996=R4.2964; 1997=R4.6073; 1998=R5.5316; 1999=R6.1131; 2000=R6.9353.

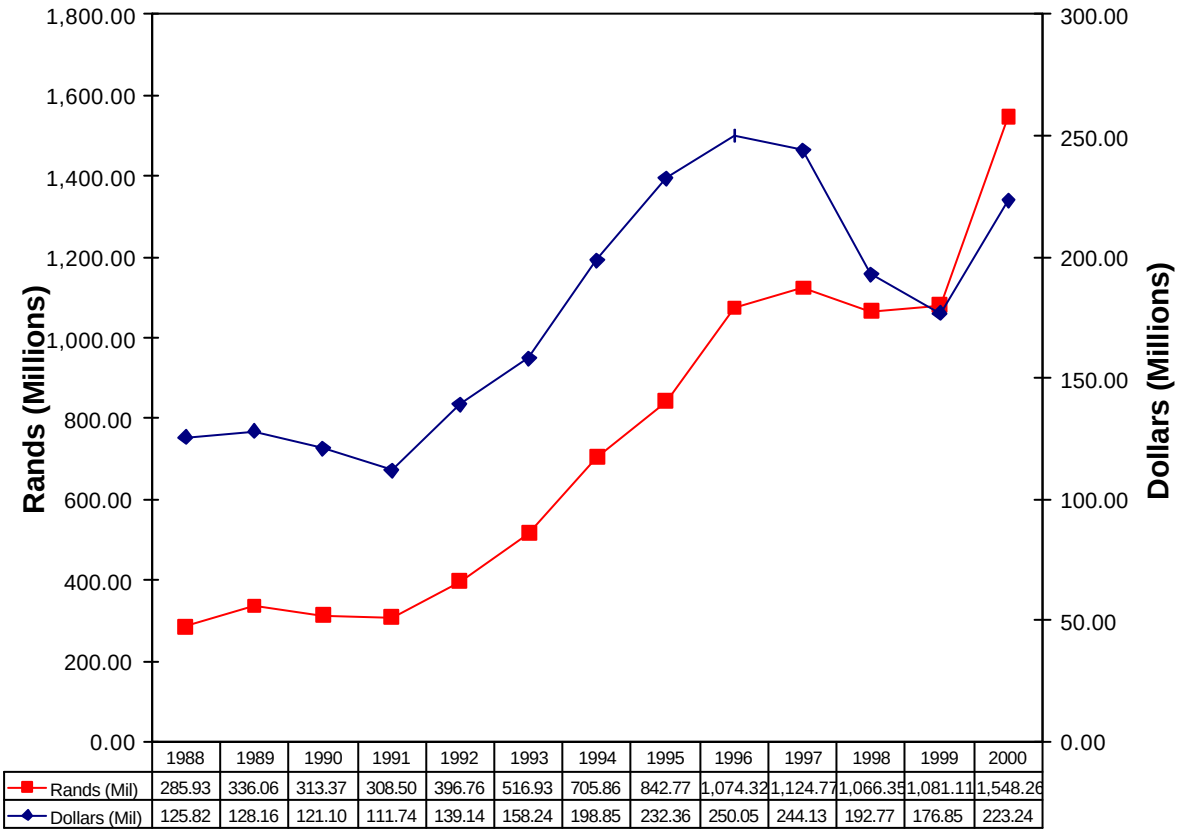
importation of tanned and semi-processed Bovine and Equine leather to the value of $64.4 million last year. The next highest category was untanned bovine and equine hide, which cost $25 million in 2000.

Using Customs & Excise data on value of imports and quantity of imports, it is possible to calculate the unit price of imports. Figure 23 (p. 58) shows that the Dollar price of untanned, semi-processed and finished imports decreased from 1997 to 1999 but increased in 2000. Overall, tanned and semi-processed imports have, in fact, decreased slightly from a peak of $8.68 per kg in 1997 to $7.51 in 2000. Of course, with the deterioration of the Rand, semi-processed and tanned hides have cost more per kilogram for South African buyers. Between 1999 and 2000, the price increased from R40.7 per kg to R52.1 (Figure 24). Of concern is the increase in the cost of hides between 1999 and 2000, a global trend which is also reflected in the price of exports.

## 2.4 Exports

According to Figure 6, the Dollar value of exports of skins, hides and leather more than doubled between 1991 and 1996. However this was followed by a decline in the late 1990s and then a recovery by 2000. Export volume data (p. 60) shows that volumes exported did indeed decrease in 1999 but recovered in 2000 to an all time high of 57,9 million kilograms.

**Figure 6: Exports of items listed under Chapter 41: raw & semi-processed skins and hides and finished leather**




| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rands (Mil) | 285.93 | 336.06 | 313.37 | 308.50 | 396.76 | 516.93 | 705.86 | 842.77 | 1,074.32 | 1,124.77 | 1,066.35 | 1,081.11 | 1,548.26 |
| Dollars (Mil) | 125.82 | 128.16 | 121.10 | 111.74 | 139.14 | 158.24 | 198.85 | 232.36 | 250.05 | 244.13 | 192.77 | 176.85 | 223.24 |

(Source: Customs & Excise data from http://www.tips.org.za/tradedata/TradeMain.htm)

Figure 25 and Figure 26 (p. 59) provide a break-down of the relative value of exports of different kinds of leather. Until 1999, ostrich, goat and reptile generated by far the most revenue. This occurred despite relatively low volumes and was the result of far higher prices on this type of leather. However, in 2000 the earnings from exports of semi-processed and tanned hides increased from $37.6 million to $76 million, putting it roughly at the same level as earnings from ostrich, goat and reptile. Figure 30 (p. 61) shows that the reason for the increase was not the result of increased volume but rather a doubling of the unit price of leather exported from $1.53 per kilogram to $3.07. In Rand terms this represents an increase from R9.36 per kilogram to R21.28. Earnings from untanned hides also increased both as a result of increased volumes shipped and an increase in unit price.

When import and export figures are combined (Table 7), it becomes apparent that South Africa is a net exporter of skins, hides and leather, both in terms of quantity and value. South Africa exports more than double the value of the skins, hides and leather it imports. However, it is a net importer of untanned bovine and equine hide. This confirms the 'shortage of hides' frequently identified as a key problem by tanners.

**Table 7: Net exports of types of skins, hides and leathers (2000)**

| Net exports (2000) | Value in Dollars | | | Quantity in Kilograms | | |
|---|---|---|---|---|---|---|
| | Exports | Imports | Difference | Exports | Imports | Difference |
| Untanned Bovine & Equine | 18,953,928 | 25,044,838 | -6,090,911 | 10,439,262 | 14,491,761 | -4,052,499 |
| Untanned Sheep | 25,995,812 | 29,241 | 25,966,571 | 13,761,772 | 605 | 13,761,167 |
| Untanned Ostrich, Goat, Reptile | 10,430,006 | 2,771,582 | 7,658,424 | 4,561,789 | 230,389 | 4,331,400 |
| Tanned Bovine & Equine | 75,964,029 | 64,418,110 | 11,545,919 | 24,759,758 | 8,632,755 | 16,127,003 |
| Tanned Sheep | 11,088,337 | 138,492 | 10,949,844 | 1,684,945 | 4,650 | 1,680,295 |
| Tanned Ostrich, Goat, Reptile | 80,810,865 | 11,947,232 | 68,863,633 | 2,667,402 | 627,071 | 2,040,331 |
| | 223,242,976 | 104,349,495 | 118,893,481 | 57,874,928 | 23,987,231 | 33,887,697 |

In all cases other than ostrich leather, the value of the good exported per kilogram was lower than the value of the same leather in that category imported. The likely explanation of this is that the exports were of a lower quality or an earlier stage of processing than the goods imported. This is particularly true for the category 'tanned bovine and equine' which includes semi-processed hide. The price paid for exported hides is likely to reflect the dominance of wet blues in exports of this category, while the imported leather in this category is likely to be dominated by finished leather for the footwear and general goods industry. These figures need to be used with some caution, however, as the volume of some categories of imports was virtually negligible (see above).

**Table 8: Comparison of prices of imported and exported skins hides and leather**

| Price | Exports $/kg | Imports $/kg |
|---|---|---|
| Untanned Bovine & Equine | 1.15 | 1.38 |
| Untanned Sheep | 2.28 | 3.28 |
| Untanned Goat, Reptile, Other | 1.55 | 9.54 |
| Tanned Bovine & Equine | 1.53 | 6.66 |
| Tanned Sheep | 6.90 | 10.81 |
| Tanned Goat, Reptile, Other | 31.86 | 13.82 |

## 2.5 Summary of key issues

- **Quality of hides:** While hide quality is reasonable by world standards, certain changes could be implemented by those who look after the animal during its life and those who prepare the hide in order to improve quality.

- **Availability of hides:** There is a shortage both globally and domestically of hides. The demand for hides by the automotive sector out-strips the number of cattle slaughtered locally.
- **Price of hides:** The price of hides is determined on the international hide market. The price of hides on this market has increased over the last two years, reversing the trend of the previous few years. The advent of foot and mouth has also fuelled this increase. In South Africa, these increases are exaggerated with the depreciation of the Rand. Local buyers of hides including wet blue tanners and leather finishers have found it increasingly difficult to offer the same price buyers abroad are prepared to pay.
- **Exports:** The export of skins, hides and semi-processed leather generates substantial foreign earnings for South Africa. Yet, in the context of the previous point on hide prices, some sections of the tanning industry believe the export of hides should have some barriers in order to ensure that raw materials are available for local downstream activities.
- **Imports:** The importation of raw hides takes place to make up the shortfall of locally available hides. Most agree that this should be encouraged and facilitated. However, the importation of finished leather is more contentious. On one hand there is a residual footwear tanning industry which is attempting to compete with cheap dumped leather from abroad. On the other hand, this cheap leather is a raw input into the footwear and general goods sectors which are themselves struggling to be competitive.
- **Tanning overcapacity:** There is an over-capacity of wet blue and footwear finishing facilities in South Africa due, in part, to the shortage of raw material and the decline of some downstream industries.

# 3 Automotive upholstery

## 3.1 The Motor Industry Development Programme & automotive upholstery

The types of factories addressed in this section are the cut and stitching operations that manufacture leather seat covers for the automotive industry (stage four of Figure 3, p. 8). This is not a longstanding industry in South Africa and most factories are just five or six years old. The primary reason for the growth of the tanning industry into automotive upholstery is the Motor Industry Development Programme (MIDP) implemented by the Department of Trade and Industry in September 1995. While initially due to last until 2002, it has now been extended, in a revised form, until 2007. The fundamental difference between the MIDP and previous government intervention in the motor industry was that in the past, the government provided 'demand side' support which meant that it promoted the demand for locally made goods by placing prohibitive taxes on imported goods (Barnes & Morris 2000). The MIDP, by contrast, is a supply side support programme which does not aim to protect local industry from international competition, but to enable local industry to become internationally competitive. Therefore, the automotive sector was, by nature, to become export orientated thus diminishing the importance of defending the domestic market.

The key component of the MIDP with regards to automotive upholstery is that it contained an import-export complementation scheme that gave credits to component manufacturers and assemblers for any exported goods. These credits, which are transferable, could then be used by assemblers to offset the duty on parts or vehicles that they wanted to import. Part of the reason for promoting exports is that the automotive industry was historically a net importer, and a source of trade imbalance for the South African economy.

While the exports of a variety of automotive components have thrived in response to this incentive, two products have shown particularly dramatic growth: stitched leather seat covers and catalytic converters. Until 1998 leather car seats was the category of components that generated the most export revenue. It is now second to catalytic converters but still accounts for around a fifth of the total value of all exports of automotive components (DTI 2000). While these appear to be two entirely different products, one common factor explains their meteoric success: low value adding activity in relation to the cost of the final product due to the high cost of inputs. The inclusion of raw materials as part of the rebate scheme is criticised as a major weakness in terms of the objectives of promoting the components sector as assemblers have used relatively low value added exports instead of other vehicle parts (Barnes & Morris 2000: 13). This dimension of the MIDP has been criticised from the leather industry itself for a different reason, which is that there is a shortage of high quality hides necessary for the volume of seats manufactured. This shortage results in inflated hide prices since hide sellers are aware of the extra-ordinary value of their hide from a local content point of view.

Despite these problems, the MIDP is widely acknowledged to have saved the hide tanning industry which was facing demise as its traditional customers, the footwear and general leather goods manufacturers, failed to retain their market.

## 3.2 Automotive seat manufacturers

### *3.2.1 The value chain*

While they are very clearly part of the leather commodity chain, many seat manufacturers consider themselves less a part of the leather industry and more a part of the automotive industry. Indeed, these firms are not actually registered with the National Bargaining Council of Leather Industries or any of the leather related employers associations. Most of them are, however, registered with NAACAM (the National Association of Automotive Component and Allied Manufacturers).

The type of operation carried out at these firms is closer to the manufacture of other automotive products, such as non-leather upholstery, than it is to the products traditionally considered part of the leather industry (footwear, general leather goods, etc). Furthermore, as the value chain outlined in Figure 3 suggests, the automotive upholstery sub-sector requires an entirely different input than other leather goods producers. While general leather goods, footwear manufacturers and automotive upholstery manufacturers may share common suppliers of raw hides and wet blues, they would not share a common supply of finished leather. The reason for this is that automotive leather and footwear/general goods leather are very different. Automotive upholstery leather only utilises the outer 1-2 millimetres of the hide (known as the grain). Furthermore, it requires good quality hides due to the stringent demands of automotive assemblers.

### *3.2.2 Descriptive profile of automotive upholstery firms*

Table 32 (p. 75) estimates that there are 8 cut and stitch operations producing automotive leather products in South Africa. Some of these spread their operations across two or three factories each. Seven questionnaires were circulated to these firms and four were returned.

**Customers:** Seat manufacturers are producing seats for car assemblers such as BMW, Daimler Chrysler, Audi, Ford, and Daewoo.

**Age:** Many of these factories are very new – most having opened within the last six years. Equipment within the factories is therefore relatively up to date.

**Size:** In line with other automotive component assemblers, seat manufacturers generally employ several hundred and sometimes more than a thousand employees. The average for the four surveys returned was 573.75 employees.

**Leather used:** Automotive upholsterers use exclusively bovine leather, although one ostrich tannery reported that one of the automotive assemblers was, at one stage, considering using ostrich leather in parts of their seats.

**Ownership:** Cut and stitch operations are generally subsidiaries of multi-national companies. Several of these companies are, in fact, owned by the same multi-national.

### *3.2.3 Key issues*

**Relationship with customers:** The cut and stitch operations that manufacture the seat covers have very close relationships with their customers. These relationships are long term contracts with automotive assemblers supplying highly specialised parts, such as seats for a single car model. These

contracts sometimes last for several years. In some cases, these cut and stitch operations are actually owned by the automotive assembler. The remaining factories are generally part of multinational firms specialising in the manufacture of interior auto trim.

The seat manufacturers supply their products on a 'just in time' basis, delivering up to three times a day. Finished goods inventory at the seat manufacturers is less than a day. Once they have been received by the customer (usually one of the assemblers) they are air-freighted to their overseas markets, mainly in Germany. One exporter alone is flying around 500 tons of leather seat covers *per week*, which equates to hundreds of thousands of seat kits per year.

Crucially, since the assemblers are the ones who actually export the product, they are the recipients of the MIDP import rebate, not the seat manufacturer or any stage further upstream. Therefore it is important to realise that the only direct beneficiaries of the MIDP are the automotive assemblers. The auto upholstery industry and tanning industry only benefits indirectly from the MIDP since the business is kept within South Africa. Arguably, the MIDP does subsidise this commodity chain since the end customer (the assembler) is able to pay more for the seats, who are then able to pay more for inputs, than they would be able to without the MIDP.

**Inputs:** Seat cover manufacturers often do not have control over their inputs. In several cases these inputs are procured on their behalf by the automotive assembler for whom they sew the seat covers. Therefore the only relationship between some seat manufacturers and their suppliers is one which concentrates on leather quality as they do not order their own raw materials.

While some of these seat manufacturers are both leather cutters and sewers, others do not have any cutting abilities and receive pre-cut leather components ready for stitching. Cutting is done for the latter either by other trim manufacturers, or increasingly by the automotive leather tanneries themselves.

The implication of this is that the assemblers are in direct control over the logistics of the seat manufacturers. What they make in any given week is determined by the inputs supplied to them by the tannery as ordered by the assembler.

**Quality:** Rejects by customers are very high in this industry. One seat manufacturer estimated that parts per million returned could be as low as 20000 at good firms but could also be as high as 70000.

Problems with raw materials (i.e. leather) are the most frequent cause of seats returned from the customer. In many cases the problem is not so much that there is something defective with the leather but rather that it is inconsistent in appearance. As the seat manufacturers point out, however, leather is an organic product which, by definition, is variable. It is not possible to simply reproduce a type of leather as one would a textile. Some exclusive sports car manufacturers do, in fact, supply an education pamphlet on the leather upholstery in their vehicles explaining reasons for marks and inconsistent appearance and justifying this on the basis that it is a natural product. More mass produced luxury cars have not, however, reached this stage.

As well as variations in raw material appearance, there can be more fundamental problems. For example, in an attempt to get a higher yield from the hide tanneries sometimes use hide from the stomach area which is far more stretchable and can be difficult to work with. Different thickness of raw material even within specified tolerance can also make sewing work difficult.

The sewing operations themselves are also responsible for some of the quality problems with their products. Sewing problems are the major cause of defects within the plant. Quality problems can result from damage caused by handling and transport which causes nicks in the soft leather. Generally, there is a heavy emphasis on quality inspection rather than quality at source or self inspection. While this keeps outgoing defects down, internal scrap rates are high. One firm reported that its internal scrap rate was more than 1%.

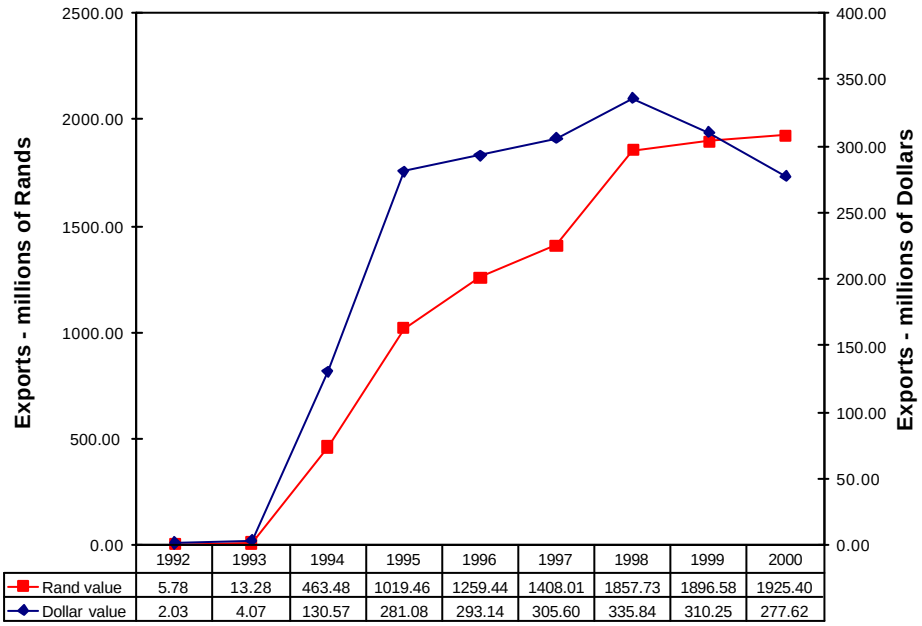
**Labour issues:** The cost of labour is a vital aspect of these businesses. Since, in some cases, the customer retains control over the procurement of inputs, seat manufacturers are simply value adding operations responsible for organising labour to sew the seats. Revenue generated comes solely from labour as margins cannot include come from the raw material. As a result, there is an increasing trend towards contract labour. One firm stated that around a third of its labours were on a daily contract hired through a labour broker. Although most of these temporary workers are employed for months on end, the firm has the flexibility of being able to ask a particular line not to come in for a week should the assembler suddenly scale down its orders. The stitching operation justifies this on the grounds that they are 'selling labour' and have to be flexible according to fluctuating demand.

Anecdotally, arguments were made that many of the people employed in the stitching operations were formerly employed in the footwear, textile and clothing industries. Further research would have to be done in order to determine the extent to which automotive upholstery has 'mopped up' the employees who lost their jobs in these declining sectors. In most cases, the majority of employees are women.

**Off cuts:** Further research needs to be undertaken in order to determine what happens to off-cuts and rejects. Much of this leather gets exported very cheaply (e.g. R3 per kg) and it is not clear to what extent attempts have been made to find local buyers for this leather.

## 3.3 Exports

**Figure 7: Value of exports of Stitched Leather Automotive Components**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Rand value | 5.78 | 13.28 | 463.48 | 1019.46 | 1259.44 | 1408.01 | 1857.73 | 1896.58 | 1925.40 |
| Dollar value | 2.03 | 4.07 | 130.57 | 281.08 | 293.14 | 305.60 | 335.84 | 310.25 | 277.62 |

(Source: Customs & Excise data – combined values for codes 42.05 & 94.019 on the advice of the DTI automotive directorate)

Data from Customs and Excise on the export of stitched leather automotive components shows both the rapid increase in this sector during the mid-1990s and the subsequent leveling of and even decline in the value of exports in this category. While the Rand value of these exports shows consistent increases since 1993, the Dollar value shows that growth between 1995 and 1998 was more modest than the growth spurt of the previous two years. The 1998 peak of $336 million has been followed by two years of decline to $278 million.

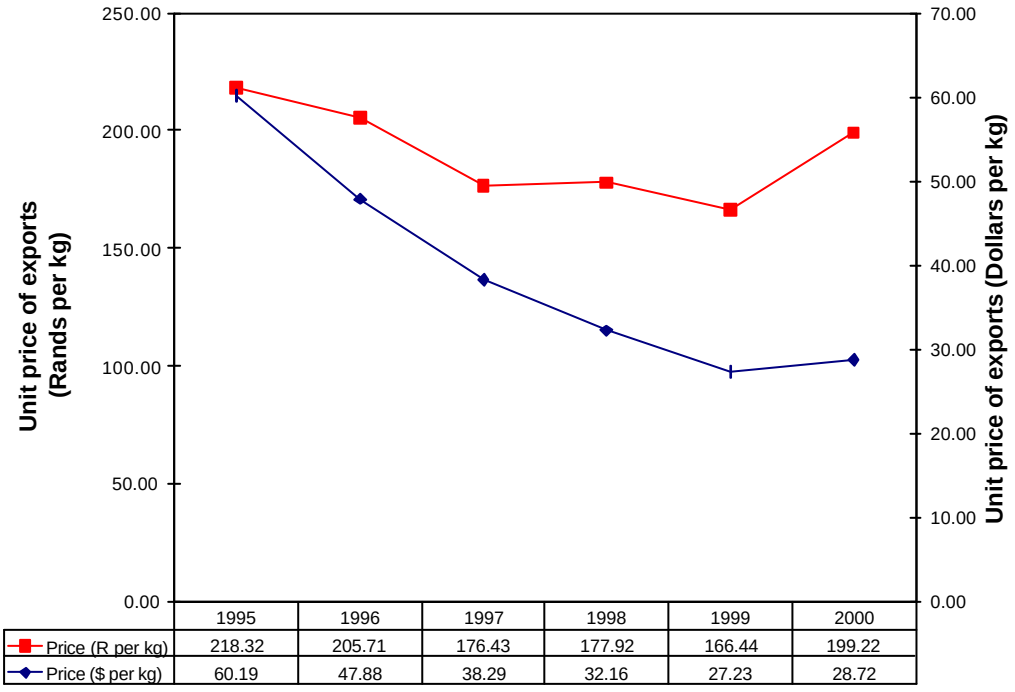
According to data on the quantity of exports, the second half of the 1990s saw substantial increases in the volume of exports. Therefore, although the Dollar value of exports in 1999 was barely more than it was in 1995, the actual amount exported was more than double. Therefore, as Figure 8 shows, the price of components decreased over this period. By 1999, the unit price was half of what it was in 1995. This is likely to result from the growing productivity of manufacturers, price-down pressures from customers and various market conditions.

This trajectory of growing volume of exports was reversed between 1999 and 2000. During this time we can also see a reversal of the previous trend of decreasing prices. This is likely to be primarily due to the increase in the price of hides identified in the previous section.

**Table 9: Quantity of auto-upholstery exports**

| | *1995* | *1996* | *1997* | *1998* | *1999* | *2000* |
|---|---|---|---|---|---|---|
| Qty (kgs) | 4,669,550 | 6,122,337 | 7,980,514 | 10,441,359 | 11,395,115 | 9,664,924 |

**Figure 8: Unit price of exports of Stitched Leather Automotive Components**



## 3.4 Future of the sector

**Furture growth:** Many believe that the sector has reached its saturation point and will not grow much further.

**Hide price:** One way in which the demand for automotive upholstery would grow is if the price of hides were to be reduced. They would then become a more affordable choice for buyers of a variety of types of cars.

**Productivity & alternative geographic centres:** Some concern was expressed about the potential of other countries to enter the automotive upholstery arena. According to one firm, workers in Hungary are being paid R250 a week which is much lower than South African wages and Hungary is much closer to Germany. Other benchmarking activity undertaken by firms is inconclusive but does suggest that South Africa is not at a productivity disadvantage compared to other countries. At present, Far Eastern countries are receiving some out-sourcing work from the global trim manufacturers but as yet have no design or customer relations strengths. Should this situation change, the Far East could pose a more serious threat.

**Future significance of the MIDP:** The MIDP is central to the continued success of the seat making sector. One seat manufacturer stated bluntly 'if the MIDP falls away, we're dead'. Some reported that the MIDP was a necessary incentive to overcome the distance between SA and the main markets in Europe, and that the cost of logistics may be the major factor causing a loss of business should the MIDP go.

However, whether the MIDP remains or not, it may become less significant if other types of exports become more prominent. As one tanner pointed out, even if the MIDP did remain, it will play less of a role for the Automotive Assemblers since they are increasingly exporting whole cars which will give them the credits they require in order to import other cars and components.

At present the import credits from the MIDP are being phased downwards towards the end of the programme in 2007.

## 3.5 Summary of key issues

- **Export focus:** One of the key aspects of the automotive industry is its export focus. It is not dependent in any way on the domestic end-buyer market.
- **Quality of raw materials:** Raw materials are identified as the most frequent cause of quality problems.
- **Cost of raw materials:** The hide price is cited as one of the main restraints on the further growth of the sector.
- **Future significance of MIDP:** Although some seat manufacturers believe they are becoming competitive in their own right, the MIDP incentive is likely to remain a key factor in future decisions by assemblers of whether to keep this business in South Africa.
- **Dependence of tanneries:** Should the automotive upholstery sector fail, it is likely to result in the collapse of the tanning industry. South Africa would become like Australia which simply exports raw hides without any value adding.

# 4 General leather products

This section examines manufacturers that produce general leather products including fashion items, belts, leather clothing, filo-faxes, luggage, furniture, and industrial protective clothing. Therefore, the definition of general goods as used here is broader than the definition used by the National Bargaining Council of the Leather Industry which would not include items such as furniture.

This section has three parts. First, it provides a profile of the types of firms found in this sector based on data from the questionnaire. Second, there is a review of the pressures faced by this sector, and the major challenges and barriers identified by manufacturers. Third, the discussion concentrates on three of these pressures, namely competition from imported goods, raw material supply and the challenge to export.

## 4.1 A sector under pressure

### *4.1.1 Declining employment*

Data from the National Bargaining Council of the Leather Industry of South Africa (Table 10) shows the dramatic decline in the number of formal sector companies and employees in the general goods sector. Both the number of employers and employees declined by around a third of their 1995 levels. Average firm size indicates that the number of employees has remained relatively constant at just below 30 employees in each company. In other words, the decline in the number of employees in the sector is consistent with the decline in the number of firms, meaning that job losses are related to factory closures rather than 'downsizing'.

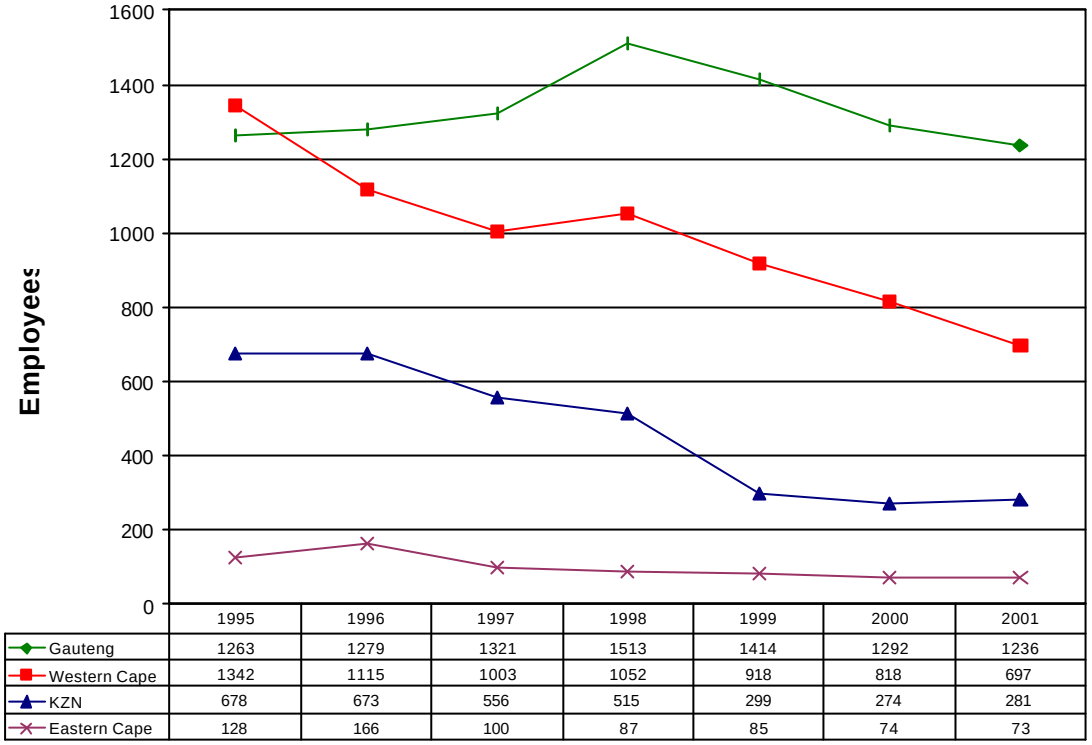
**Table 10: Employers and employees in the general leather goods sector**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | % change 95-01 |
|---|---|---|---|---|---|---|---|---|
| **Employers** | 119 | 116 | 108 | 108 | 97 | 87 | 78 | -34.5 |
| **Employees** | 3410 | 3183 | 3040 | 3167 | 2716 | 2458 | 2287 | -32.9 |
| **Avg. frm size** | 28.7 | 27.4 | 28.1 | 29.3 | 28.0 | 28.3 | 29.3 | 2.3 |

(Source: National Bargaining Council of the Leather Industry of South Africa)

The Bargaining Council's statistics can be further disaggregated into regional change. As can be seen from Figure 9, KwaZulu-Natal declined the most between 1995 and 2001, shrinking by 58.6%, followed by the Western Cape which declined by 48.1%, and the Eastern Cape which declined by 43%. Gauteng, on the other hand, remained relatively constant declining only by 2.1% between 1995 and 2001.

**Figure 9: Regional change in employment in general goods manufacture**




| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Gauteng | 1263 | 1279 | 1321 | 1513 | 1414 | 1292 | 1236 |
| Western Cape | 1342 | 1115 | 1003 | 1052 | 918 | 818 | 697 |
| KZN | 678 | 673 | 556 | 515 | 299 | 274 | 281 |
| Eastern Cape | 128 | 166 | 100 | 87 | 85 | 74 | 73 |

In the questionnaire circulated for the purposes of this research, firms were asked whether their employment levels had increased or decreased over the last five years (Table 11). Consistent with the Bargaining Council's data, two thirds of the firms surveyed experienced declining employment levels while only a quarter experienced increases.

**Table 11: Has the number of people you employ increased or decreased since 1996?**

| | Number | Percentage |
|---|---|---|
| Increased | 6 | 23.1 % |
| Decreased | 16 | 61.5 % |
| Stagnant | 4 | 15.4 % |

Respondents were then asked to explain changes in employment levels in an open-ended question. The written answers that were provided are summarised in Table 12 and Table 13. Note that people sometimes identified multiple reasons for declines or increases in employment. The most frequently cited reason for declines in the number of employees is competition from cheap and illegal imports. This was followed by the cost of leather inputs and then the generally poor state of the economy, which resulted in few people wanting to buy leather goods. A variety of other reasons were also identified by individuals for their shrinking workforces. The few firms that experienced growth in the number of employees stated that it was an increase in demand for the product, that they had created their own retail outlets and that they had started manufacturing new types of products.

**Table 12: Explanations for decreases in employment at general goods firms surveyed**

| Reason | No. |
|---|---|
| Leather inputs: Leather inputs: price increases. | 3 |
| Declining market: Competition in domestic market from cheap/illegal imports | 5 |
| Declining market: Competition in export markets from cheap imports | 1 |
| Declining market: Competition in domestic market from domestic producers. | 1 |
| Declining market: More people are unemployed & cannot afford products. | 2 |
| Labour: Mechanisation allowed reduction in employees | 1 |
| Labour: Restrictive labour regulation | 1 |
| Labour: Switch from part time/intermittent to full time employment | 1 |
| Product change: Stopped certain product line(s) | 1 |

**Table 13: Explanations for increases in employment at general goods firms surveyed**

| Reason | No. |
|---|---|
| Increases in turnover/demand for product | 3 |
| Opened own retail stores locally | 1 |
| Started new product line | 1 |

### *4.1.2 Major challenges to business*

The survey answered by 26 general leather products manufacturers asked the following two open-ended questions:

- Please indicate the main barriers or difficulties your business is currently facing or has recently encountered.
- What strategic changes has your business undergone in order to exploit new opportunities or overcome barriers?

While four respondents chose not to answer these questions, they generally provoked passionate responses. An example of a response to the first question is the following:

> ‘Leather goods manufacturing is such a labour intensive process that it has been sad to see the rapid and massive decline of this industry. No support has been forthcoming from the government and nothing has been done to try and reverse the trend over the last 10 years. All the big manufacturers of leather handbags have closed down’

**Table 14: Major challenges identified by general goods manufacturers**

| Challenge | No. | % of 22 |
|---|---|---|
| 1. Inputs: leather price increases/high cost of local leather | 3 | 13.6 % |
| 2. Inputs: low value of Rand increases cost of imported leather | 2 | 9.1 % |
| 3. Inputs: availability of leather. | 3 | 13.6 % |
| 4. Inputs: leather quality inconsistent or poor. | 2 | 9.1 % |
| 5. Declining market: Competition in domestic market from cheap/illegal/dumped imports | 19 | 86.4 % |
| 6. Declining market: Competition in export markets from cheap imports | 1 | 4.5 % |
| 7. Declining market: Export market shrinkage due to economic downturn | 1 | 4.5 % |
| 8. Labour: Restrictive labour regulation | 4 | 18.2 % |
| 9. Labour: Low labour productivity / high wages | 3 | 13.6 % |
| 10. Labour: Lack of skills amongst employees/shortage of skilled labour | 4 | 18.2 % |
| 11. Fiscal issues: High interest rates | 1 | 4.5 % |
| 12. Fiscal issues: Introduction of VAT on returning samples from overseas trade shows | 1 | 4.5 % |
| 13. Crime in South Africa | 1 | 4.5 % |

The various responses to the first question are summarised in Table 14. By far the most frequently cited challenge is a declining domestic market as a result of cheap or illegal or dumped imports, especially from the Far East. This was identified by 19 of the 22 firms (86.4 %) that answered this question. Other market related challenges identified were declining markets are a result of economic downturns, and competition in export markets from the Far East. Several firms also mentioned labour related issues such as restrictive labour laws, low labour productivity and a lack of skills. Another set of challenges related to inputs, the rising cost of leather, the unavailability of leather, and the inconsistent or poor quality of the available leather. Finally, regarding the economic and political context, companies referred to high interest rates, vat being charged on samples returning from trade fairs and crime in South Africa.

In response to the second question, companies were undertaking a variety of strategies to overcome the above challenges. Encouragingly, the most frequently cited strategy was to attempt to become exporters, a strategy mentioned by just less than a third of the firms. Other marketing strategies such as bypassing retailers, setting up own retail outlets, creating internet catalogues, and exploring new domestic markets generally. There was also a set of strategies around product change, such as switching to niche or up market products, increasing the range of products or changing products made. In order to resolve the raw materials/inputs problems, firms were either switching to synthetics or importing leather to get around shortages in local supplies. Labour related strategies included training and giving shares to employees. Firms were also buying new machinery and capital to resolve production problems. On the more negative side, one firm stated that they were switching away from manufacturing to wholesale of imported finished goods and several referred to merging, downsizing or closing.

**Table 15: New business strategies being deployed by general products manufacturers to overcome challenges**

| New strategies | No. | % of 22 |
|---|---|---|
| 1. Product change: Upgrade quality/moving upmarket | 2 | 9.1 % |
| 2. Product change: Increase range of products | 2 | 9.1 % |
| 3. Product change: Change products made | 1 | 4.5 % |
| 4. Product change: Switching to niche products (such as game, personalised products) | 2 | 9.1 % |
| 5. Inputs: Switching to synthetics | 6 | 27.3 % |
| 6. Inputs: Importing leather to obtain required quality/type | 2 | 9.1 % |
| 7. Marketing: exploring new domestic markets | 1 | 4.5 % |
| 8. Marketing: exporting more, exploring new export markets; attending trade shows | 7 | 31.8 % |
| 9. Marketing: created an internet catalogue | 1 | 4.5 % |
| 10. Marketing: using more direct retailers such as factory shops | 1 | 4.5 % |
| 11. Marketing: using multiple distributors to sell finished goods | 1 | 4.5 % |
| 12. Marketing: opening own domestic retail outlets | 1 | 4.5 % |
| 13. Labour: In-house training to boost skills | 1 | 4.5 % |
| 14. Labour: Black empowerment: Shares to paid employees | 1 | 4.5 % |
| 15. Capital expenditure: Acquiring new machinery | 1 | 4.5 % |
| 16. Importing finished goods (switching away from manufacturing to wholesale) | 1 | 4.5 % |
| 17. Downsizing, merging, closing | 3 | 13.6 % |

Having outlined the perspective of businesses, the following examines the challenges of cheap imports, raw materials and the drive to export in more detail.

## 4.2 Descriptive profile of general goods manufacturers

In order to build up an impression of the types of firms that exist within this sector, the following provides a descriptive profile of firms based on returned questionnaires and data derived from the National Bargaining Council of Leather Industries.

**Location:** Twenty six general leather products manufacturers were surveyed, just under half of whom were located in Gauteng, with a strong representation also from the Western Cape followed by a few firms in KwaZulu-Natal and the Eastern Cape. This is a fairly similar distribution to the location of all firms registered with the National Bargaining Council which showed Gauteng and Western cape as the two provinces with the most firms followed by KZN and the Eastern Cape.

**Table 16: Location of general goods manufacturers**

| Province | Number of returned questionnaires | % | Number of employers registered with Council | % |
|---|---|---|---|---|
| Gauteng | 12 | 46.2 % | 34 | 43.6 % |
| Western Cape | 9 | 34.6 % | 32 | 41.0 % |
| KwaZulu-Natal | 3 | 11.5 % | 9 | 11.5 % |
| Eastern Cape | 2 | 7.7 % | 3 | 3.8 % |
| **Total** | **26** | **100 %** | **78** | **100%** |

**Firm size:** For the purposes of describing the number of employees it is necessary to disaggregate the number of firms. The two furniture firms had an average of close to 500 people each. The remaining 24 firms had an average number 42.3 employees ranging from 3 to 280. However, the firm employing 280 people was an outlier as the next largest firm employed 85 people. Therefore if the firm employing 280 people is removed, the remaining 23 firms employed an average of 31.9 people. As Table 10 (below) shows, the average number of employees of those firms registered at the National Bargaining Council for the Leather Industry is 29.3 people. Since the firm employing 280 people was not a member of the Council, the average number of employees of those firms surveyed is fairly similar to all those registered with the Council.

**Products:** The overwhelming majority of the firms produced general leather items such as wallets, filo-faxes, handbags, luggage, and belts. Three also were engaged in the manufacture of fashion clothing, and there were also firms manufacturing sports goods, footwear (in combination with general leather goods), furniture, protective leather clothing and gun accessories.

**Table 17: Types of products manufactured by companies surveyed**

| Product type | No. | % of firms |
|---|---|---|
| Garments (Jackets, skirts, pants, hats, etc) | 3 | 11.5 % |
| General leather goods (wallets, filo-faxes, handbags, luggage, belts, accessories, etc) | 22 | 84.6 % |
| Sports goods (balls, gloves, saddlery, etc) | 2 | 7.7 % |
| Footwear (shoes, shoe components) | 1 | 3.8 % |
| Furniture (Leather lounge suites, upholstery, etc) | 2 | 7.7 % |
| Protective leather clothing | 1 | 3.8 % |
| Holsters and gun bags | 2 | 7.7 % |

While most of the manufacturers use bovine leather, eleven also use game, ten use ostrich leather, eight used sheep leather, and six used reptile.

**Table 18: Types of leather used by general goods manufacturers surveyed**

| Type | No. | % of firms |
|---|---|---|
| Bovine | 22 | 84.6 % |
| Sheep | 8 | 30.0 % |
| Ostrich | 10 | 38.0 % |
| Reptile | 6 | 23.1 % |
| Game | 11 | 42.3 % |

**Turnover:** Table 19 shows the turnover bracket into which the 26 companies fall. Once again it is necessary to separate furniture from the others. The two firms that have a turnover above R 50 million are in fact the leather furniture manufacturers and are therefore not what the Leather Bargaining Council would classify as a 'general leather goods' manufacturer. One of the furniture manufacturers indicated that it turned over more than R 200 million in 2000. If we exclude these two furniture firms we see that the turnover of general leather goods manufacturers rarely exceeds R 5 million and none of those surveyed exceed R 20 million. Six of the firms (excluding the two furniture manufacturers) supplied their actual turnover, which ranged from R 276,836 to R 10,985,944 at an average of R 2,950,032.

**Table 19: Turnover category of general goods manufacturers surveyed for the year 2000**

| Turnover Category | No. | Percentage |
|---|---|---|
| Less than R 5 million | 17 | 65.4 % |
| R 5-10 million | 3 | 11.5 % |
| R 10-20 million | 4 | 15.4 % |
| R 20-50 million | 0 | 0.0 % |
| Above R 50 million | 2 | 7.7 % |

**Capacity:** Those surveyed were asked 'What was your production as a percentage of your capacity in 2000?' 19 companies gave answers to this question, which ranged from 20% to 100% of capacity. The average was 67.4%. The two furniture firms were operating at capacity above this average (an average of 80% between them) and if they are excluded from the overall average, it becomes 65.9%.

**Ownership:** The ownership of firms indicates that the majority of firms are independent companies or owner managed. Only one firm had form of foreign investment, while all of the others were domestically owned. Respondents were then asked whether they were hoping to increase foreign investment in their firms. Of the 22 who answered this question, only 3 said yes while 19 said no.

**Table 20: Ownership status of general goods manufacturers**

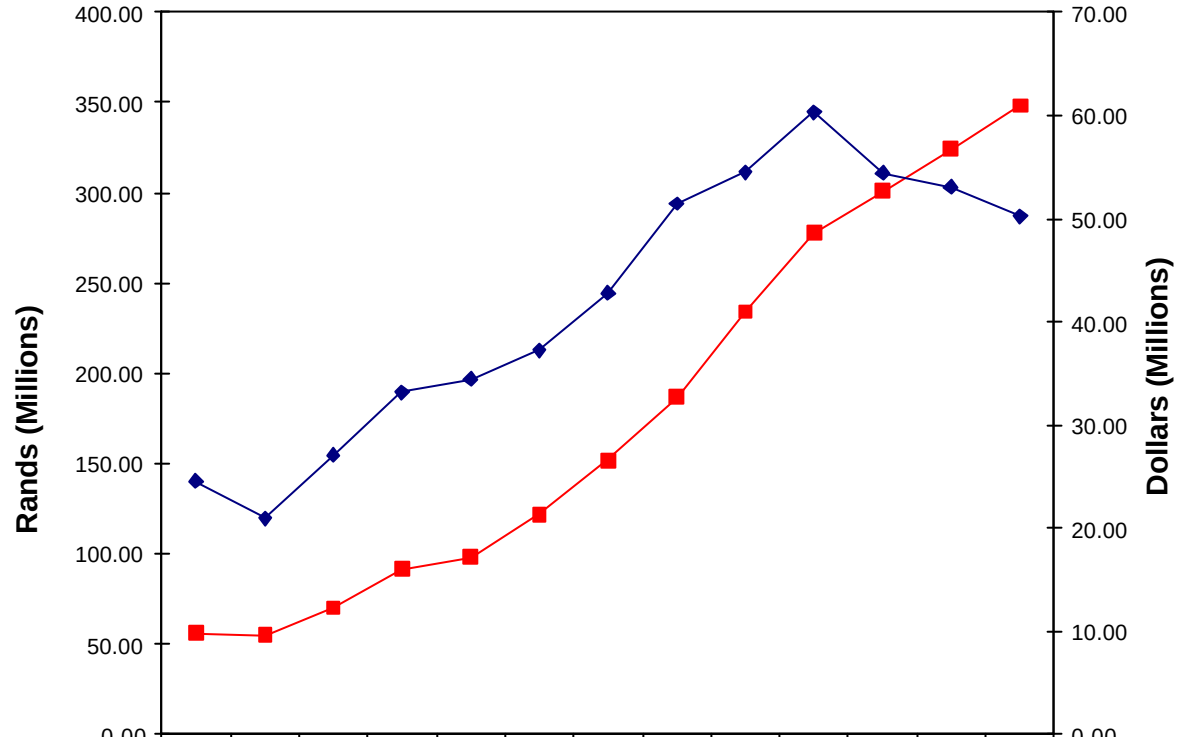
| Ownership type | No. | % |
|---|---|---|
| Subsidiary of Domestic Company | 0 | - |
| Subsidiary of Foreign Company | 1 | 3.8 % |
| Independent: Ltd or Private Company | 15 | 57.7 % |
| Owner-Managed (Proprietor or Partnership) | 10 | 38.5 % |
| Joint Venture with Foreign Firm | 0 | - |

**Summary:** Most general goods manufacturers are small independent companies employing around 30 people and turning over less than R 5 million a year. Most are manufacturing general leather goods such as wallets, filo-faxes, handbags, luggage, belts, accessories, with bovine leather being the most frequently utilised type of leather. There appears to be a surplus of capacity with most firms only operating at two thirds of their potential capacity.

## 4.3 Competition from imported finished goods

Data from customs and excise verifies the claims of businesses that there has been a growth in the level of finished general leather products being imported to the country. Figure 10 displays data on the imports of all items listed under chapter 42 (for details of these items see Table 29 on page 71 below). In Dollar terms, these imports went from a net value of $ 27.13 million to $ 60.33 million in 1997. After 1997, however, the Rand and Dollar graphs move in different directions. While the Rand graph suggests further deteriorations, the Dollar graph suggests that the value of imports has actually declined since 1997 and is now at $ 50.22 million. Data on actual volume of imports is more alarming, showing a consistent increase from 1995 from 33 million items to 41 million items in 2000 (see p. 63). However, these figures need to be used with caution as 'number of items' is an unspecific category.

**Figure 10: Imports of items listed under Chapter 42: general leather goods**




| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rands (Mil) | 55.85 | 54.93 | 70.21 | 91.67 | 98.25 | 121.74 | 151.94 | 186.81 | 234.37 | 277.97 | 301.27 | 324.30 | 348.30 |
| Dollars (Mil) | 24.58 | 20.95 | 27.13 | 33.20 | 34.45 | 37.27 | 42.80 | 51.51 | 54.55 | 60.33 | 54.46 | 53.05 | 50.22 |

The category of goods that makes up the bulk of the value of these imports is travel goods, followed by leather clothing of various kinds, handbags, small items and saddlery (see Figure 31, p. 62). While the value of travel goods imported has remained relatively constant over the last half of the 1990s, the quantity has, in fact, increased. The same graph shows that number of imported items of leather clothing has decreased.

This data, of course, does not represent the full extent of finished goods entering the country. A great deal of illegal exports are finding their way onto the mass market, and this would, of course, not be captured by Customs and Excise. Illegal imports are discussed further in section 5.1.2 below.

### *4.3.1 Case Study*

In order to illustrate the issue of cheap imports, it is useful to examine the case study of Proglove CC. This company was established in 1983 in King Williamstown. It manufactures industrial protective gear such as gloves that are used in industry for handling potentially harmful objects or doing potentially harmful jobs such as welding. The business has three major operations split across two sites. At one site, low grade wet blues and sheepskins are re-tanned in preparation for use in protective clothing. At the other site, this leather is stamped (cut) into the component shapes. In the third stage, these components are then sewn together. At the first site, 106 people are employed while 280 are employed in the cutting and stitching operation. The overwhelming majority are women.

Industrial protective clothing used to be a significant business in South Africa. The owners of Proglove estimate that a decade ago there were seven to eight manufactures employing 2000 to 2500 people. Now, however, there is only one other manufacturer and less than 500 employees altogether. The reason for this, according to Proglove, is that cheap imports from the Far East have penetrated the market. Manufacturers have been replaced with around 15 formal importers and an unknown number of non-established importers of industrial protective clothing. These importers employ around 80 people in comparison to the 2000 jobs lost in this sub-sector.

At present around 4 million pairs of industrial gloves are sold in South Africa a year, of which Proglove produces a quarter. Most of the remainder is supplied by cheap imports. The distribution agents that Proglove relies on for marketing are increasingly using imported gloves. This year, Proglove lost the contract to supply Iscor to imported gloves. One of the main reasons why these imports are able to undercut Proglove is because they are of inferior quality. While Proglove is endorsed by SABS and makes durable gloves to high standards, imported gloves are not durable. For example, some are made from the middle split, which is the useless sandwich in between the grain split and the flesh split of the hides. Generally samples and first deliveries from importers are good, as a way of securing orders, but then deteriorate rapidly in quality.

Proglove also believes that manufacturers in China, India, Malasia, Singapore, Pakistan and the West Indies are able to undercut South African producers as they are subsidised or protected, and that much of the imported goods are ‘dumped’. Proglove says it would love nothing better than healthy competition from abroad, but ‘we’re not competing against other manufacturers, we are competing against the governments of countries that protect those manufacturers.’ They believe that they would be competitive were there to be level playing fields.

Aside from the problem of legal imports being cheaper than local products despite having paid 20% import tax, there are also many illegal imports that slip past customs controls and therefore do not have to pay tax. Many goods are being smuggled in through corruption and loopholes in the customs and excise system.

In the face of this competition, Proglove has lodged an application for a 30% import surcharge on top of the existing 20% import tariff. Until 1994 there was a 25% surcharge but this was scrapped under the new government. Proglove argues that if the surcharge were in place, it could guarantee increased employment. If there were only a 20% surcharge, they could guarantee 120 manufacturing jobs within a year, thereby re-employing those who had been retrenched in recent years. A higher surcharge might actually allow a growth in the sector. It is a very cheap sector in which to create unskilled jobs, and one R12,000 sewing machines can create 2.7 jobs. Proglove also argues that with increasing volume of production, the cost of overheads per glove would come down and therefore it

might be able to start competing on price with its foreign competition and could go into exports. It believes that its best export opportunities are in sub-Saharan Africa.

## 4.4 Raw material supply

As Table 14 (above) suggests, raw material supply presents a formidable problem for small companies. Some small companies feel that they are not valued as clients of tanneries who are more interested in bigger clients. One company in Cape Town employing 20 employees complained that Mossop Western – the major non-automotive tannery – would not even look at them as a customer. The company believed that larger footwear manufacturers and more recently automotive needs were being prioritised above those of small companies. Very often when the company requests supply by sending in samples of leather previously bought from the tannery, they are told that it is not available at present. At one stage around 1996, the company was not supplied with leather for an entire season.

Furthermore, when the tannery is willing to supply, it requires the customer to buy very large quantities which means that the company cannot afford to buy stock of a large variety of leathers. Although importing raw materials is an alternative, this avenue has the same problems in that the firm would have to buy whole container-loads of leather when they might only have needed a small quantity.

Aside from the intermittent availability of local leather, it is also not always of good quality. Manufacturers did not feel that South African leather was not low grade in general, just that the automotive sector was able to monopolise the best grades thereby leaving the poorer qualities for other types of manufacturers. As was explained in section 3, the MIDP incentivises the use of local leather in automotive upholstery manufacture.

**Imported raw material:** In Table 15 (above), two firms stated that one of their business strategies was to import more of their raw materials. To quote one respondent explaining their business strategy 'We have moved more and more upmarket using better quality leather obtainable only from overseas.' In this case, the choice to switch to imported leather was driven by the poor quality of the available local leather.

In the survey, respondents were asked what proportion of raw leather inputs were imported. Eleven of the firms did not import any raw material. Those that did import, imported between 5 and 100% of their inputs, averaging at 49.9 %. If the eleven non-importers are included in this figure, general leather products manufactures import 28.8% of their raw materials.

Asked whether the proportion of imported raw material import has increased, decreased or stayed the same, the majority (including those that do not import) stated that they import no more or less than they did five years ago. Eight firms stated that they now imported more while two indicated that they imported less.

**Table 21: Has the proportion of imported raw material changed over the last five years?**

| | Number | Percentage |
|---|---|---|
| Increased | 8 | 30.8 % |
| Decreased | 2 | 7.7 % |
| Stagnant | 16 | 61.5 % |

The two furniture firms said that they had increased the proportion of imported leather.

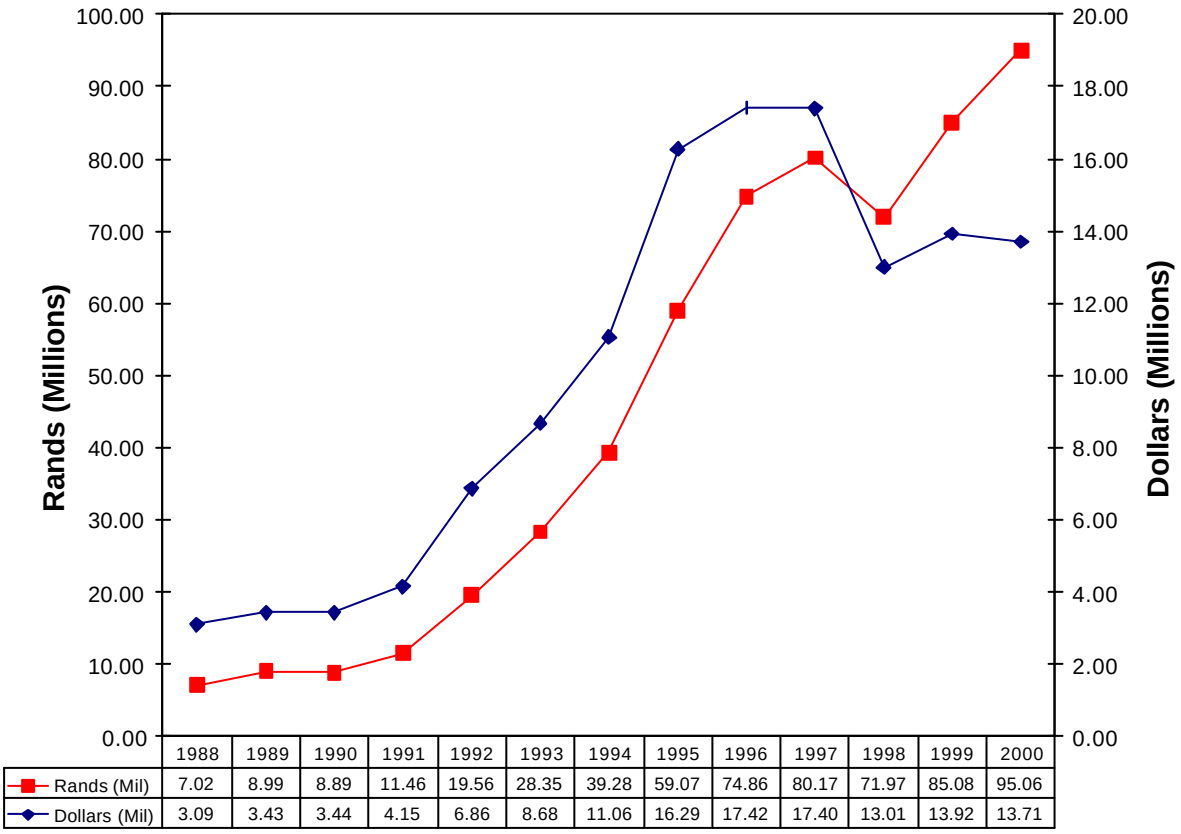
**Non-leather products:** In Table 15 (above), six firms stated that one of their strategies for overcoming the problems with leather inputs was switch away from leather to synthetics. In the questionnaire, companies were asked whether they also manufactured products with no leather content? Of the 26 firms surveyed, 16 said they did manufacture products with no leather content and 10 said they did not. The 16 companies that said they do use produce non-leather products estimated this, as a percentage of their turnover, to be an average of 29.22%, with estimates ranging from 2.5% to 70%. The manufacturers that did produce non-leather products were then asked whether the non-leather goods they manufactured has increased, decreased or remain stagnant as a percentage of turnover. As Table 22 shows, almost two thirds of the companies that produce non-leather goods had increased the proportion of non-leather goods as a percentage of total turn over.

**Table 22: Has the proportion of goods you manufacture with no leather content changed over the last 5 years?**

| | Number | Percentage |
|---|---|---|
| Increased | 10 | 62.5 % |
| Decreased | 2 | 12.5 % |
| Stagnant | 4 | 25 % |

## 4.5 Exports

**Figure 11: Exports of items listed under Chapter 42: general leather goods**



Although the export of general goods grew dramatically during the 1990s, it remains at relatively low levels. Furthermore, growth was halted by a sharp drop between 1998 and 1999 and no subsequent return to similar growth rates.

As can be seen in Figure 34 (p. 64), the bulk of exports have historically come from handbags, but this has declined sharply between 1999 and 2000. The export of travel goods has been on a decline since 1996 as has the export of small items. Quantities of travel goods increased markedly until 1998 but have since decreased. Encouragingly, quantities of clothing-related items have been on the increase since 1998. Table 23 shows that South Africa is a net importer of all types of general leather goods both in terms of quantity and value.

**Table 23: Net exports of types of general leather goods (2000)**

| | Value in Dollars | | | Quantity in numbers of items | | |
|---|---|---|---|---|---|---|
| | Exports | Imports | Difference | Exports | Imports | Difference |
| Saddlery 42.01 | 342,873 | 1,074,457 | -731,584 | 28,323 | 94,544 | -66,221 |
| Travel 42.021&029 | 2,355,105 | 27,819,424 | -25,464,319 | 2,055,998 | 28,220,979 | -26,164,981 |
| Handbags 42.022 | 3,265,631 | 7,724,913 | -4,459,283 | 385,202 | 8,581,442 | -8,196,240 |
| Small items 42.023 | 681,354 | 4,011,876 | -3,330,523 | 67,635 | 2,084,982 | -2,017,347 |
| Clothing 42.03 | 2,042,287 | 8,988,218 | -6,945,931 | 246,630 | 1,720,697 | -1,474,067 |
| Other 42.04 & 06 | 5,018,811 | 601,776 | 4,417,035 | | | |
| Total | 13,706,061 | 50,220,665 | -36,514,604 | 2,783,788 | 40,702,644 | -37,918,856 |

Of the 26 companies that responded to the questionnaire, 11 firms stated that they did not export any products. The remaining 15 exported 25.93% of their products ranging from 1% to 95%. Ten of the firms were exporting 10% or less of their products. The two furniture firms were exporting an average of 52.5% of their products.

**Table 24: Has the proportion of exported raw material changed over the last five years?**

| | Number | Percentage |
|---|---|---|
| Increased | 7 | 26.9 % |
| Decreased | 2 | 7.7 % |
| Stagnant | 17 | 65.4 % |

Some firms claimed that they had investigated the possibility of exports but found this difficult due to their size. Bearing in mind that the average general goods manufacturer only has around 30 people turning over just a few million a year, the cost of overseas trips to establish export markets is prohibitive. Although there is some funding available from the DTI for this purpose, at least one firm complained of inefficiency with the disbursement of this funding, leaving firms out of pocket for months despite the fact that their money had been approved. One respondent representing a company making cell phone covers, handbags and other items stated ‘We have tried to get into exports but cannot compete quality-wise with overseas manufacturers’.

During the process of sending out questionnaires, one company that was contacted was, in fact, in the process of closing down. This was despite the fact that most of its goods, which were ostrich leather products, were exported to places such as Japan. It transpired that the Japanese ostrich leather goods market was being conquered by Korean manufacturers. These manufacturers were acquiring ostrich leather from ostrich leather producers in South Africa. Given the exchange rate, they have been able to pay more for the leather than local manufacturers.

## 4.6 Summary of key issues

- **Domestic focus:** Unlike the automotive industry, the general leather goods sector is dependent almost exclusively on the domestic market.
- **Domestic market conquered by cheap imports:** Cheap imports (legal, dumped and smuggled) have penetrated the South African market for general leather goods thus displacing domestic manufacturers.
- **Declining employment:** Due to the loss of business for firms, the number of firms and employees has decreased.
- **Raw material supply:** The cost, quality and availability of leather inputs is a major inhibitor to the competitiveness of general goods manufacturers. This has resulted in growing use of imported leather and synthetic inputs.

# 5 Footwear

The footwear sector has come under many of the same pressures that the general leather products sector has experienced, as outlined in the previous section. As was explained in the introduction, there is already a substantial amount of data on this sector due to the existence of an employer body engaged in research, namely the South African Footwear and Leather Industries Association (SAFLIA). This section is therefore a discussion based on some key pieces of secondary data rather than a presentation of new primary data. Key issues reviewed are: declining formal sector employment in the sector, the penetration of cheap imports and the growing informal manufacturing sector.

The South African market is estimated to be around 80 to 90 million pairs of shoes per year (two per person). There are around 22 million shoes made in the formal sector South Africa of which around 60% have leather components (Arrow N on Figure 3). A further four million shoes are made in the informal sector. This does not represent the full extent of the activities undertaken in the informal sector which also produces components for shoes made in the formal sector. Of the total 26 million shoes made in South Africa 3.4 million (13%) are exported (Arrow P). Therefore there are 22.8 million shoes made and consumed locally which is little more than a quarter of the 80 – 90 million shoes consumed locally. The balance is made up from imports (Arrow R) which officially are 54 million pairs. This figure, however, does not include illegal imports, for which estimates range upwards from 4 million pairs.

**Table 25: Pairs of shoes produced in SA, imported and exported**

| | Made in SA | | Imported | Exported |
|---|---|---|---|---|
| | Formal | Informal | | |
| Leather | 12,905,585 | - | 11,368,272 | 700,878 |
| Non-leather | 9,311,582 | - | 43,016,564 | 2,719,959 |
| Total | 22,217,167 | 4,000,000 | 54,384,836 | 3,420,837 |

## 5.1 A sector under pressure

### *5.1.1 Declining formal sector employment and production levels*

> 'The industry is close to the point of no return where its critical mass will become too small to support pipeline suppliers such as leather tanning, sole and component production etc. Such a situation will have grave effects on the industry but especially on the informal sector, which relies almost exclusively on local agents and suppliers for their raw material supplies.' (Lubbe 1999: 3)

As this statement by the president of SAFLIA suggests, the footwear industry has undergone a very difficult period since the opening up of South Africa's markets. Role players are arguing that it has shrunk to such an extent that the viability of the industry is at stake.

Table 26 indicates a rapid decline in the number of formal sector footwear employers and employees. There are now around half the number of formal employers as there were in 1995, and the number of employees as declined by an even greater 58% of their 1995 levels. Since the number of employees has fallen faster than the number of companies, average firm size has also decreased from 133 people in 1995 to 108 people in 2001. Therefore, unlike the general goods section (Table 10 on p. 29 above) where job losses took place mainly through factory closure, job losses in the footwear section are occurring both through factory closure and 'downsizing'.

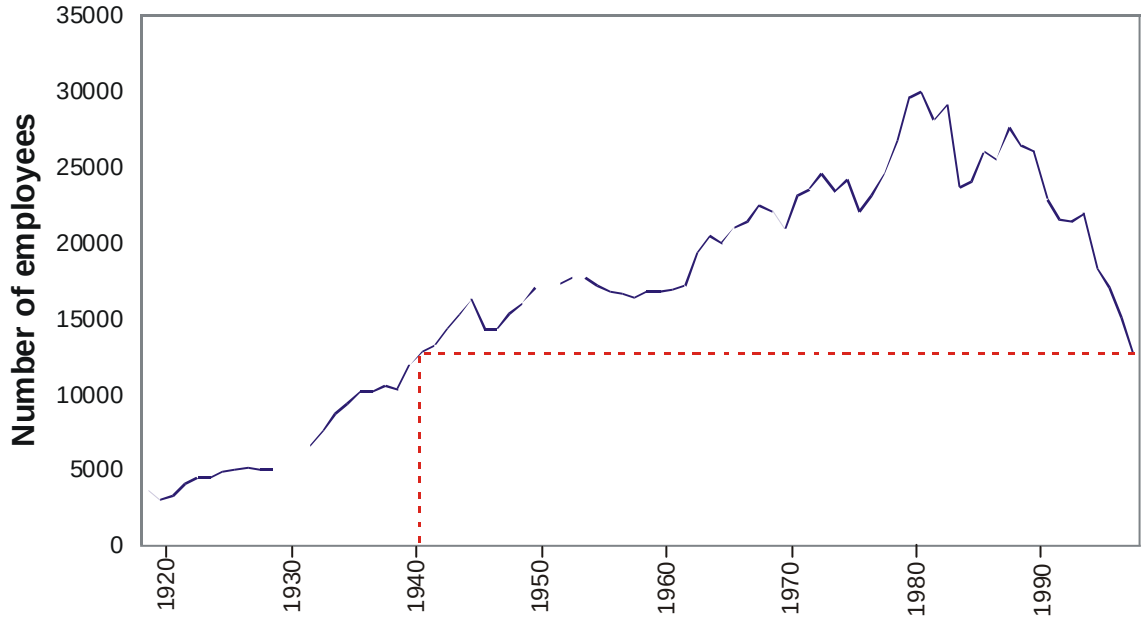
**Table 26: Employers and employees in the footwear sector**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | % change |
|---|---|---|---|---|---|---|---|---|
| **Employers** | 214 | 203 | 197 | 200 | 183 | 140 | 111 | -48.1 |
| **Employees** | 28351 | 24878 | 22841 | 19990 | 17537 | 15742 | 11972 | -57.8 |
| **Avg. frm size** | 132.5 | 122.6 | 115.9 | 100.0 | 95.8 | 112.4 | 107.9 | -18.6 |

(Source: National Bargaining Council of the Leather Industry of South Africa)

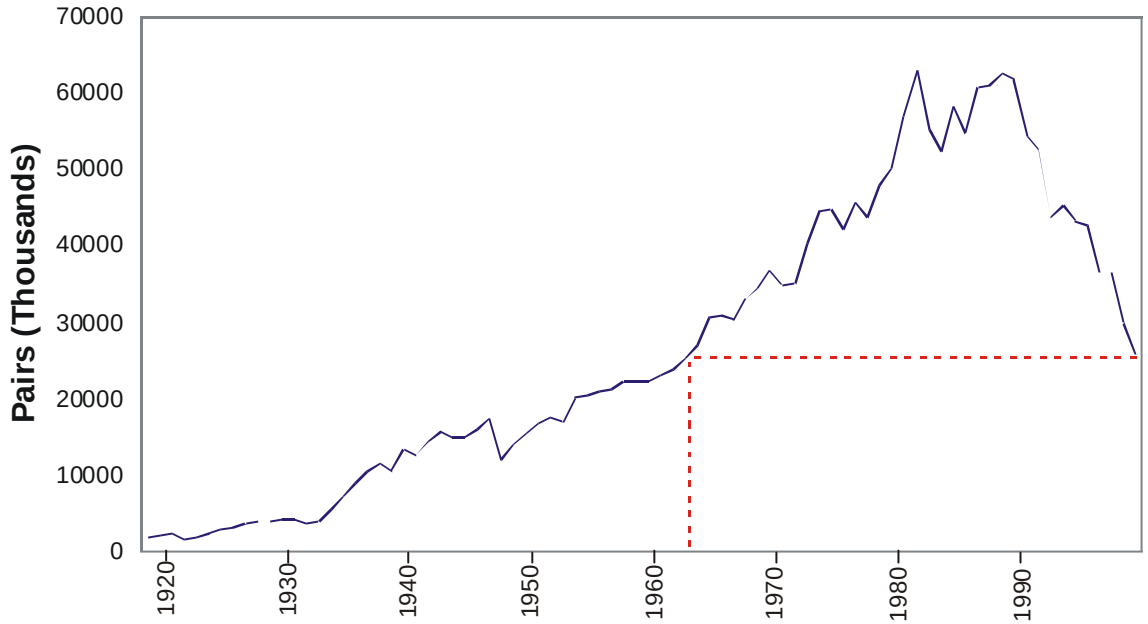
Historical records kept by SAFLIA make it possible to generate longitudinal graphs of change in the sector throughout its existence. Figure 12 shows that employment in the footwear sector peaked at 29905 employees in 1982, and had already come under strain by the late 1980s. The 1990s was marked by a period of rapid decline, such that employment levels by the end of the 1990s were the same as employment levels in the 1940s.

**Figure 12: Formal employment in the footwear sector 1918-1999 (SAFLIA 1999)**



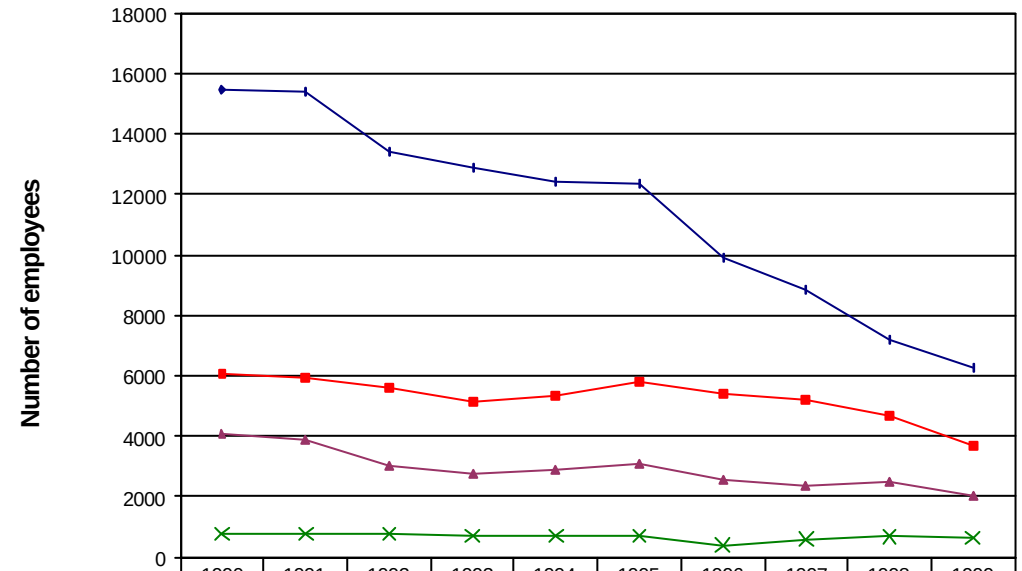

Production levels in 1999 were about half of what they were a decade before, at levels not seen since the early 1960s.

**Figure 13: Pairs produced from 1918-1999 (SAFLIA 1999)**




Statistics on regional change show that declines in formal employment levels have not been evenly distributed. KwaZulu-Natal has declined by 59.6% of its 1990 level, followed by the Eastern Cape at 49.8%, the Western Cape at 37.7% and the Northern Area at 17.2%.

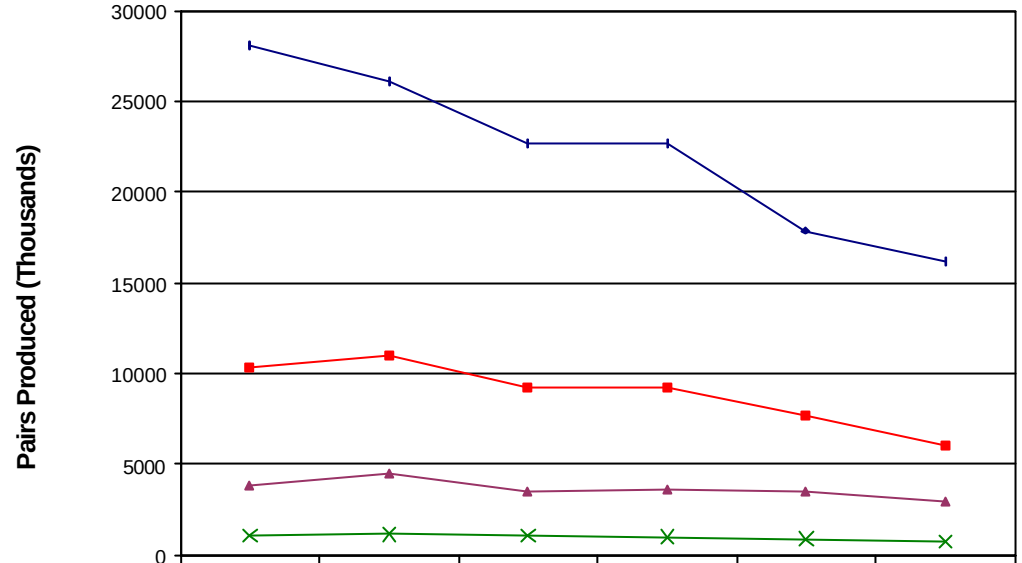
**Figure 14: Changing employment per region over time (SAFLIA 1999)**




| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| KZN | 15452 | 15405 | 13388 | 12888 | 12395 | 12364 | 9898 | 8849 | 7170 | 6238 |
| Western Cape | 6078 | 5932 | 5611 | 5168 | 5329 | 5783 | 5405 | 5185 | 4668 | 3664 |
| Eastern Cape | 4049 | 3868 | 3041 | 2768 | 2877 | 3054 | 2557 | 2365 | 2468 | 2034 |
| Northern area | 773 | 780 | 766 | 699 | 703 | 698 | 396 | 593 | 678 | 640 |

Production in KZN declined by 42.6% of its 1994 levels, followed closely by the Western Cape at 41.1%, then the Eastern Cape at 25.1% and the Northern Area at 28.2%.

**Figure 15: Changing production per region over time (SAFLIA 1999)**




| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|
| KZN | 28106 | 26122 | 22704 | 22721 | 17874 | 16127 |
| Western Cape | 10287 | 10933 | 9220 | 9188 | 7644 | 6060 |
| Eastern Cape | 3849 | 4479 | 3470 | 3587 | 3466 | 2884 |
| Northern Area | 1049 | 1127 | 1044 | 968 | 885 | 753 |

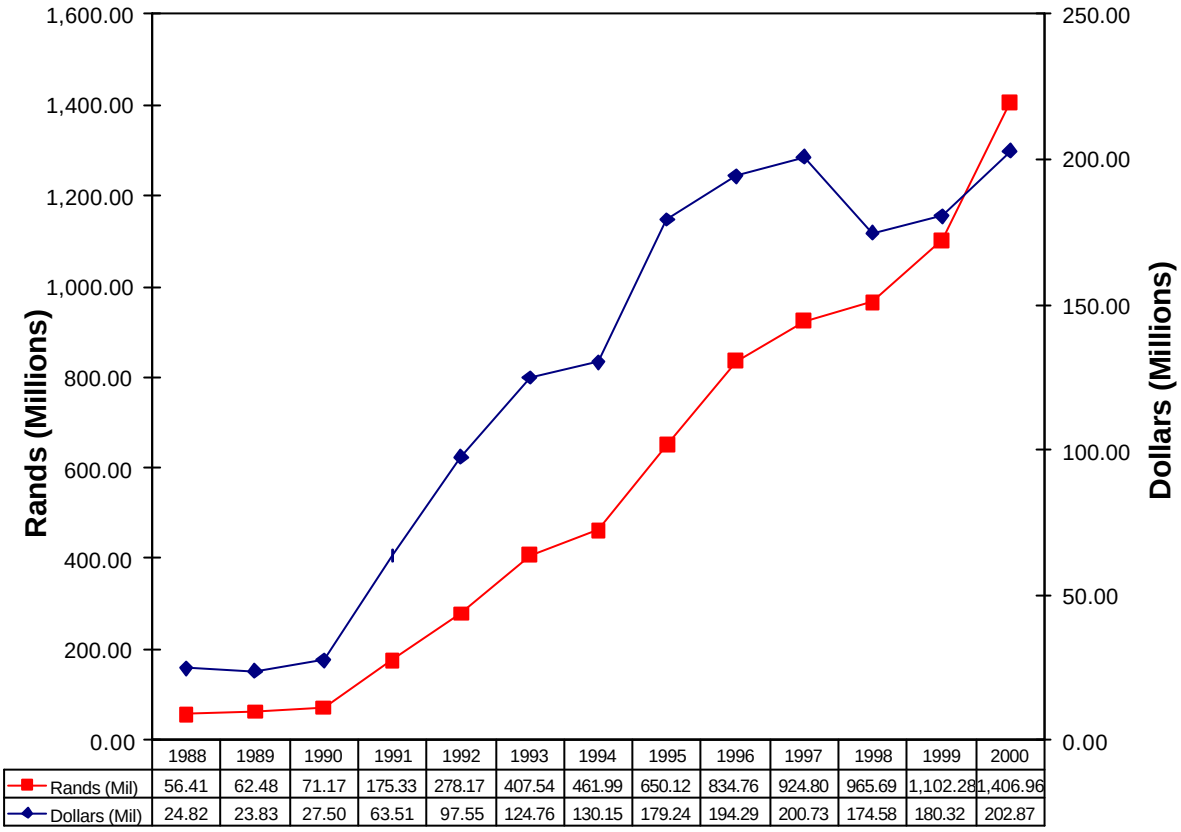
It is important to realise that these statistics are, in fact, incomplete as they only capture formal sector employment. There has been a growing informal footwear manufacturing sector employing thousands of people. This issue will be dealt with in section 5.1.3 after an assessment of the primary reason for the decline in formal sector employment, that is, penetration of cheap imported footwear into the South African market.

### *5.1.2 Penetration of imported footwear*

As Figure 16 shows, imports of footwear have increased dramatically since the end of the 1980s. However, while the Rand value of imports gives the impression of constant increases, the Dollar value shows a decline between 1997 and 1998 followed by a return to increasing value of imports. The result is that the import levels of 2000 are not much more than the import levels of 1997 in Dollar terms.

The table on p. 67 shows that, in terms of quantities, imports reached a peak of 66 million pairs in 1995, almost doubling from the previous year. They then declined until 1998 back below 1994 levels and have subsequently increased to 54 million pairs in 2000. Figure 38 shows that these dramatic fluctuations can be attributed to changing levels of imports of non-leather footwear, rather than leather footwear. At present, leather footwear only accounts for a fifth of the pairs imported and is relatively constant, while imports of non-leather footwear is increasing rapidly. It should be noted, however, that the relatively few pairs of leather footwear are more valuable per pair and cost at least double non-leather footwear (Figure 39).

**Figure 16: Imports of items listed under Chapter 64: footwear**

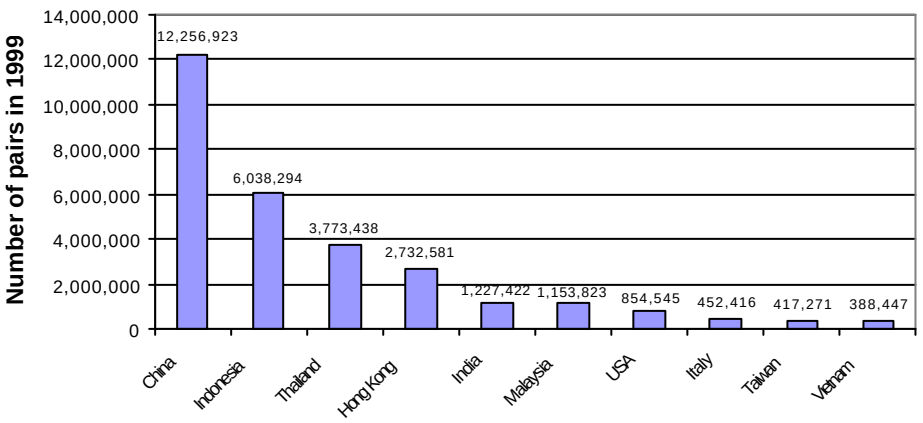



| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rands (Mil) | 56.41 | 62.48 | 71.17 | 175.33 | 278.17 | 407.54 | 461.99 | 650.12 | 834.76 | 924.80 | 965.69 | 1,102.28 | 1,406.96 |
| Dollars (Mil) | 24.82 | 23.83 | 27.50 | 63.51 | 97.55 | 124.76 | 130.15 | 179.24 | 194.29 | 200.73 | 174.58 | 180.32 | 202.87 |

(Source: Customs & Excise data from http://www.tips.org.za/tradedata/TradeMain.htm)

The reason for the cheapness of imported footwear can be found by an assessment of the conditions of their production. The origin of most imported shoes is the Far East, where producers have a number of competitive advantages. Most notably, the cost of labour in this region tends to be far lower than South Africa's cost of labour. A study conducted by LMC and the NPI (1996: 86) quantified this by calculating that Chinese labour was about 23% of the cost of South African labour on Men's full Grain and Women's Corrected Grain shoes, and was 18% of the costs on Athletic type shoes.

**Figure 17: Top ten countries exporting shoes to South Africa (SAFLIA 1999)**



In general, environmental and labour standards are lower in cheap footwear manufacturing regions, thereby considerably reducing costs for these manufacturers. Concern has been raised in some standards as to the safety of leather made in some areas. It is believed that some leather is tanned using the highly toxic chrome 6 (raw chrome) as opposed to chrome 3 which is the safer tanning agent used in areas with more rigorous standards. Furthermore, industries are protected and subsidised in various ways by the governments of major footwear exporting countries.

Various players in the South African industry believe that goods brought into South Africa are unfairly priced and are therefore classifiable as 'dumped' goods in terms of the GATT agreements. A price would be deemed unfair if it were below the cost of the inputs needed to make that good, or if it were being sold at below the cost for which it would sell the same good in other markets. The selling country is able to sell at below cost as it is either offloading 'surplus' goods or strategically attempting to take over and dominate a market. Although it sells at a loss into the target market, the predatory firms or countries will be rewarded once the indigenous competition is dead and they can raise their prices.

Foreign goods are sometimes unfairly priced due to their origin as over-runs of production. For example, a Far Eastern manufacturer may make several million pairs of a shoe for a US buyer. If manufacturer makes too many shoes for the buyer's needs, they then have a surplus which has to be sold off. Not only has this manufacturer had a significant economy of sale, but the surplus footwear is likely to be sold for even lower amounts as the manufacturer has already paid for the cost of the production with the sale to the original buyer.

SAFLIA has raised concern about the way in which imports from the Far East are no longer marked with 'country of origin' labels (Linde 1999: 21). This makes it difficult not only for member of the public to determine the origin of the products they are considering buying, but also makes it difficult to undertake anti-dumping action.

Aside from dumping, there is also the problem of illegal goods smuggled into the country which are not charged the 30% footwear import tariff by Customs and Excise. According to one estimate, illegal imports may exceed 18 million pairs. SAFLIA has, at times, paid for forensic investigators to assist Customs and Excise with detecting and stopping such goods. These goods get through due to a variety of reasons: lack of capacity at Customs and Excise, lack of training, lack of personnel, and corruption. According to LMC and the NPI (1996: 234), illegal imports are a legacy from apartheid era sanctions busting.

Ironically, some of the biggest importers into South Africa are, in fact, the major footwear manufacturers. Therefore interests are somewhat 'blurry' since manufacturers are no longer necessarily committed to manufacturing jobs in South Africa as they can still retail footwear without having to manufacture it.

A number of people identified the potential role of a consumer education campaign in order to promote South Africa shoes, in terms of quality, standards of labour during production, and domestic job creation. There is a misconception that South African goods are not good quality whereas the reality is that they are often superior to the imported goods. Many people do not know that the branded shoes they purchase are in fact already made in South Africa. In order for such a campaign to work, it would be necessary to have 'country of origin' labels.

### *5.1.3 The advent of the informal sector*

If we return to the data provided in Figure 14 and Figure 15, and compare the decline in production and the decline in employment, it is clear that between 1994 and 1999 in KZN, production decreased by less than formal employees (production declined by 42.6% whereas employees declined by 49.4 %). This means either that employees have become more productive or that there are actually more employees manufacturing footwear and components than are being captured by the official statistics.

The gap can be explained by the advent of informal footwear manufacturing in recent years. Employer bodies such as SAFLIA are greatly concerned about the growing number of informal manufacturers producing footwear. They are informal in the sense that they are not registered with the National Bargaining Council and therefore do not implement the agreed wage rates and conditions of employment. Many of these operations have been started by people who were victims of factory closures and retrenchments within the formal sector (Linde 1999: 9). It is therefore difficult to tell whether the decline in the average number of employees per company, which was made clear in Table 26 (p. 42), represents and actual decline in job losses, or a change in the type of employment from formal to informal sector. Unions estimate that there are as many as 10 000 employees in the formal sector, or roughly as many as are in the formal sector.

> 'The largely unregulated informal sector has proved that it can create jobs. Unfortunately this growth is at the expense of, and not in addition to, that of the formal sector. The informal sector has neither the experience, skills, infrastructure nor the capacity to fulfil functions such as development, design, brand building, marketing etc.' (Lubbe 1999: 3)

As a result of failing to implement agreed wage levels the informal sector is able to produce at about a quarter of the cost of the formal sector (Lubbe 1999: 3). Since formal sector employers are bound by the costs of Bargaining Council agreements, they are being unfairly under-cut by the informal sector which is likely to threaten the stability of these agreements.

A related issue is the growing use of the COFESA model, particularly in KwaZulu Natal. COFESA, which stands for the Confederation of Employers of South Africa operates by turning parts of factories into separate companies which then receive out-sourcing work from the manufacturer. This takes place under the guise of 'black empowerment' since these new companies are often owned by former supervisors, but is widely criticised for having the opposite effect since wages are likely to go down. As SAFLIA argues,

> 'This scheme is seen as nothing more than a sham to escape the authority of the bargaining councils but it does highlight the plight of manufacturers in South Africa operating in labour intensive sectors under conditions of over regulation.' (Linde 1999: 9)

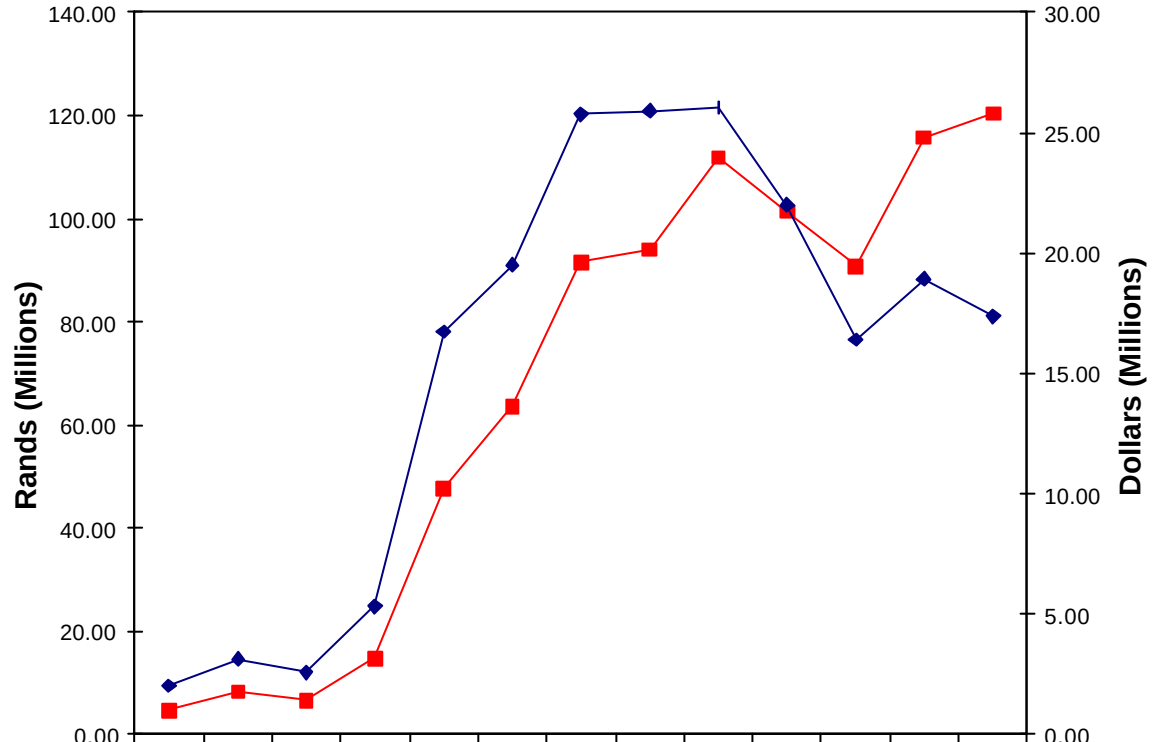
Unions argue that even though employer organisations criticise the trend towards this kind of out sourcing, they tacitly support it since many formal sector manufacturers are benefiting from the use of components or jobs done in the informal sector. One COFESA company the unions have discovered operating in Chatsworth employs between 300 and 500 people in a large factory making whole shoes, not just components. They estimate that employees in such factories are getting paid around half of what they would in the formal sector. The Union stated that it has identified more than 114 unregistered firms operating in the Durban region employing anywhere between 50 and 500 people.

## 5.2 Exports

The footwear industry has never been a significant exporter. In the mid 1990s, its major export destination was the UK, but South African shoes only accounted for a percent of the UK market (LMC & NPI 1996: 218).

Although the Dollar value of exports increased impressively between 1991 and 1994, it then remained constant until 1996 before declining sharply until 1998. Exports do not appear to have been able to re-establish strong growth since and are floundering at around $17 million.

**Figure 18: Exports of items listed under Chapter 64: footwear**




| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Rands (Mil) | 4.60 | 8.18 | 6.62 | 14.72 | 47.72 | 63.69 | 91.49 | 93.98 | 111.89 | 101.43 | 90.76 | 115.70 | 120.40 |
| Dollars (Mil) | 2.02 | 3.12 | 2.56 | 5.33 | 16.73 | 19.50 | 25.78 | 25.91 | 26.04 | 22.01 | 16.41 | 18.93 | 17.36 |

When the above quantities are separated into leather and non-leather, it emerges that the failing exports of leather footwear is the main cause. While leather footwear has historically generated more revenue than non-leather footwear, the year 2000 saw a reversal of this pattern for the first time, and non-leather footwear becoming the dominant earner (Figure 40, p. 68). Except for a decrease in 1998, pairs of non-leather footwear exports have increased since the start of the decade, while leather footwear has decreased from 1.4 million pairs in 1995 to 0.7 million pairs in 2000 (Figure 41). This situation was not helped by a decrease in the unit price of exported leather footwear between 1998 and 2000 as can be seen in Figure 42.

Two of the most prominent trade agreements which may present opportunities for the footwear sector are the EU trade agreement and the US's Africa Growth and Opportunity Act (AGOA). At present, South African exporters to Europe are more likely to use the General System of Preference agreement than the EU agreement. Normally the EU tariff on shoes is 8%. Under the General System

of Preference agreement between Europe and SA, South African exporters would only pay 5.6%. The EU agreement contains a 'phase down' of 75% of the tariff in 2000 (6%), 50% in 2001 (4%), 25% in 2002 (2%) and nothing in 2003 (no tariff). Therefore the EU tariff was higher than GSP last year and is only marginally lower this year. Any advantages will only really occur in the next two years.

The AGOA agreement with the US could provide excellent opportunities for the footwear sector. South African exporters will be at an advantage over Far Eastern exporters are still subject to tariffs ranging from 4 to 48%, (Inggs 2001). Furthermore, the 35% local content requirements of AGOA are less stringent than the EU which requires 85%. It is estimated that the agreement could see exports increase from 2 million pairs to 12 million pairs over the next few years creating 5000 jobs.

Discussions with industry role-players suggest that there are relatively few firms (around five) that are seriously exporting. Various people said that there should be an equivalent of the MIDP for the footwear sector in order to promote and incentivise exports. In 2000, a Footwear Export Council was formed to address these issues.

**Table 27: Net exports of types of footwear (2000)**

| | Value in Dollars | | | Quantity - pairs | | |
|---|---|---|---|---|---|---|
| | Exports | Imports | Difference | Exports | Imports | Difference |
| Leather | 6,698,326 | 82,833,471 | -76,135,145 | 700,878 | 11,368,272 | -10,667,394 |
| Non-leather | 10,662,202 | 120,035,949 | -109,373,747 | 2,719,959 | 43,016,564 | -40,296,605 |
| Total | 17,360,528 | 202,869,420 | -185,508,892 | 3,420,837 | 54,384,836 | -50,963,999 |

## 5.3 Summary of key issues

- **Domestic focus:** As with the general goods sector, the footwear manufacturing sector continues to rely on the domestic market.
- **Loss of domestic market to imports:** The domestic market is no longer the exclusive domain of domestic manufacturers due to competition from cheap, dumped or smuggled imports. Much of the damage has been done by illegal or dumped imports and the DTI has a very important role to play to implement ways of stopping these kinds of imports.
- **Raw materials:** Imported leather is increasingly being utilised in order to reduce the cost of inputs. Due to the protected nature of the leather industries in source countries, this leather can be imported at cheaper prices than it can be made in South Africa.
- **Informalisation:** In order to compete with manufacturers in the Far East, South African footwear manufacturers have found various ways of operating outside of National Bargaining council agreements, by outsourcing to unregistered firms or adopting a COFESA model. Consequently, this informal sector labour is paid less than formal sector labour.

# 6 Summary and Policy Considerations

The leather industry in South Africa has been fundamentally transformed through South Africa's transition from a relatively closed and protected economy to an open market. In the past it was dependent on the sale of finished goods such as footwear and general goods in the domestic market. Since economic liberalisation, however, the large parts of the domestic market have been lost to cheap imports especially from the Far East. As a result we see declining formal sector employment in footwear and general goods and an increasing use of informal labour in an attempt to compete with these cheap goods.

Despite the decline of traditional leather manufacturing industries, the tanning sector has thrived over the same period. The reason for this is the arrival of the automotive upholstery sector which exports leather car seats, predominantly to Europe.

Those sub-sectors of the leather industry that have succeeded have in common their export focus. This includes not only the upholstery sector, which exports almost everything it makes, but also includes up-stream exports of ostrich leather, wet blues and even raw hides. The automotive sector is an undeniable 'success story' of growing employment in a well paid, high tech sector where most of the inputs and value adding take place within South Africa. It is all the more successful due to the infusion of technology through Foreign Direct Investment and the growing competitiveness of firms involved in this commodity chain.

Those sub-sectors that have declined have the common characteristic of an inward orientation – attempting to continue selling to their traditional domestic market. The rapid tariff phase down exposed the uncompetitive-ness of the footwear and general goods sectors. It forced these industries to confront the same pressures which had characterised international footwear and general goods manufacture for some time. As the data presented here has shown, these pressures resulted in the painful loss of tens of thousands of formal sector jobs.

The case of the footwear and general goods sector exposes a fundamental problem with international competition, which is that minimum acceptable standards of one country are not the same as those of another. It is very difficult for a country with a well paid workforce and stringent environmental laws to compete with a country that has a low paid workforce and lax environmental standards. For example, China's aggressive entry into the global market is said to be reducing labour standards elsewhere (Harrison *et al* 1997: 10).

One of the effects of globalisation is that poorer countries have become engaged in a 'race to the bottom' in that they compete by lowering standards. Cheap labour has become a commodity, the 'competitive advantage' of the poor nations. South Africa, according to Fryer & Newham (2000) is caught in a 'nexus of bewilderment' pulled between the left's insistence on the need for protection and the right's demands for a laissez faire state.

High standards of employment are unsustainable in the face of competition from producers with low standards of employment competing for the same market. The emergence of COFESA and various modes of 'informal employment' are simply the lowering of employment standards as an adaptation to this competition. This trend exemplifies experience in other developing countries that the objective of high labour standards are unrealistic as they require complex legislation which is difficult to

enforce and police (Fryer & Newham 2000: 16). The 2001 wage negotiations at the National Bargaining Council of the Leather Industry demonstrate precisely this point, with employer representatives calling for a return to firm level negotiation and the removal of blanket agreements other than basic conditions of employment.

**Protecting the domestic market**

Many role players have called for greater protection of the domestic market. An analysis of the protection levels, however, suggests that they are in fact fairly high in themselves and within the parameters set by the GATT agreements which the government has adopted. The government's objective, within the 1996 Tariff Rationalisation Process, was to achieve 30% of tariffs on finished goods, 20% on intermediate goods and 10% on primary goods (Holden and Casale 2000: 3). Mechanisms such as anti-dumping duties are seen as preferable to an increase in the tariff rate. Encouragingly for firms, 69% of the 57 applications to increase duty in 1998 and 78.6 % of the 30 applications for anti-dumping duties in 1997 were approved by the Board of Trade and Tariffs (Holden and Casale 2000: 7). The proportion of supported applications has risen during the 1990s for both categories. Holden and Casale (2000: 20) identified employment being one of the most important considerations favoured by the Board.

No matter how high tariff levels are, however, they are immaterial in the face of illegal imports. The millions pairs of footwear entering the country without the 30% import duty continue to damage any potential for domestic manufacturers to enjoy access to the domestic market. This has been acknowledged by the DTI as a key priority and this report can only reaffirm the importance of swift and effective action in this regard.

**Developing an export focus**

The key to future growth in the footwear and general goods sectors, however, will not be through the domestic market but exports. While these sectors have not previously succeeded in exports, the EU and AGOA agreements currently coming into effect may provide the appropriate window of opportunity. Through a close relationship with significant buyers in the US and Europe, the footwear and general goods sectors have a better chance of embarking on the 'steep learning curve' which will lead to greater competitiveness and productivity.

## 6.1 Further research topics on the leather industry in SA

As a preliminary piece of research, this report can identify a number of areas for further research:

- Survey of protection of the leather industry by various governments around the world in order to see whether South Africa's protection is in line with other countries.
- The positive and negative impacts of a charge placed on exporting raw and semi-processed hides including by-products from automotive tanning (i.e. splits).
- Potential for education campaigns directed at farmers and those who are responsible for flaying and temporarily preserving hides in order to improve the quality of hides.
- Potential for co-operative procurement of raw material (raw and semi-processed hides and imported leather).
- The manufacturing productivity of various sectors (the gap between SA firms and world class manufacturing).
- Informalisation within the industry.
- Export promotion.

## 6.2 Policy options for consideration

Since this has been a preliminary study, it is not possible to make definitive policy recommendations. The purpose of the following is to stimulate further discussion and identify possible lines of investigation. None of these should be implemented without a thorough assessment of likely impacts, in consultation with role-players and those that will be affected.

Making recommendations for the leather industry is also difficult since there are a variety of interests at stake. What may be beneficial to upstream exporters may be detrimental to downstream manufacturers. The interests of importers are at odds with the interests of manufacturers. Several broad objectives can, however, be identified which are job creation, improved manufacturing competitiveness and export promotion. The following attempt to combine various interests and these broad objectives

### *6.2.1 Tanning*

- Given the shortage of hides in South Africa, the growth of downstream activities would depend on the future availability of hides. Programmes to overcome this barrier should be investigated.
- Conduct a thorough investigation into the export of raw and semi-processed hides. In particular it is important to discover whether the full value adding potential within South Africa has been reached. More than one tannery requested that the export of raw materials including splits from the automotive industry be restricted somehow.
- The quality of hides, especially from informal rural producers, can be greatly improved. Investigate the possibility of implementing programmes to educate farmers in the best ways to care for animals and prepare hides.
- Tanneries specifically requested that the DTI urgently implement anti-dumping procedures against unfairly priced imported leather.

### *6.2.2 Automotive upholstery*

- The MIDP has been a great success for the cut and stitch sector and upstream suppliers of leather. The effects of future changes to tariffs should be carefully explored as the failure of this sector will result not only in the closure of cut and stitch factories but the decline of the tanning industry as well.

### *6.2.3 Footwear and general leather goods*

**Raw materials**

- At present, the main local tannery supplying footwear and general goods manufacturers is often unsuitable in the way it delivers to small companies (bulk) and unreliable in that it often does not want to supply them with what they need as the leather is being diverted elsewhere. In order to facilitate access of small companies to raw materials, co-operative systems should be established so that smaller local tanneries, likely to be more flexible, are more fully utilised.

- Where a shortfall still exists, cooperative procurement of imported leather should be facilitated with a view to passing on a maximum amount of the saving onto the manufacturer.

**Domestic market**

- Treat footwear and general goods anti-dumping applications with a matter of urgency.
- Continue to explore ways of closing leaks in customs and excise. Explore the possibility of implementing a programme specifically aimed at stopping the illegal importation of shoes.
- Promote South African footwear to the domestic market on the basis of quality.
- Consider requirements for 'countries of origin' labels on imported goods.

**Export promotion**

- Investigate the possibility MIDP type plan of the footwear and general leather goods sector to promote exports.
- Explore the possibility of a programme to dissemination of information about export opportunities which are now available through AGOA, the EU trade agreement and other trade agreements. Look at facilitating contact between South African manufacturers and US and European buyers.
- Although small companies make potentially exportable products, their low turnover gives them few resources to travel overseas and establish international markets. Trade fairs and wholesale agencies should be investigated in order to overcome this problem.

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**Web sites**


Clearing Support Services & Cargo Info Africa: http://www.rapidttp.co.za/tariff/index.html

International Trade Centre: http://www.intracen.org/leather/

LeatherXchange:* http://www.leatherxchange.com/

Trade and Industrial Policy Secretariat (TIPS):* http://www.tips.org.za/


* password required for some parts of these sites

# 8 Appendices

## 8.1 Import/export breakdown for ch. 41 - skins, hides & leathers

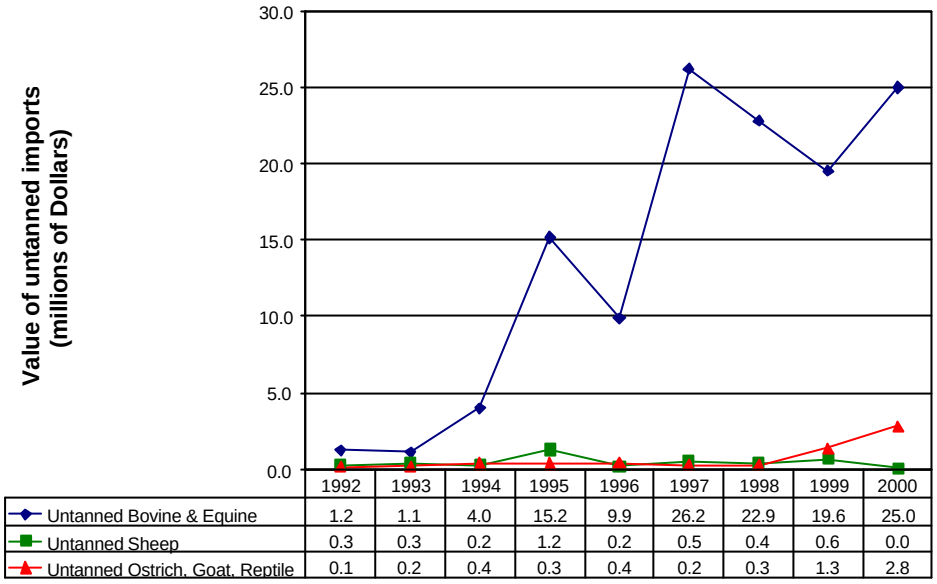
- Source: Derived from ‘free on board’ data supplied by Customs and Excise.

- The categories are composed from the figures supplied according to the various codes outlined in Table 28 (p. 70 below) in the following way:
    - Untanned Bovine & Equine = codes starting with 41.01;
    - Untanned Sheep = codes starting with 41.02;
    - Untanned Ostrich, Goat, Reptile, Other = codes starting with 41.03,
    - Tanned Bovine & Equine = codes starting with 41.04;
    - Tanned Sheep = codes starting with 41.05;
    - Tanned Ostrich Goat, Reptile, Other = codes starting with 41.06-41.011.

- Please note that although every care has been taken to ensure the accuracy of these figures, errors are still possible. Please contact Richard Ballard at the University of Natal (ballardr@nu.ac.za) if you would like the excel files in order to be able to see how the figures were calculated.

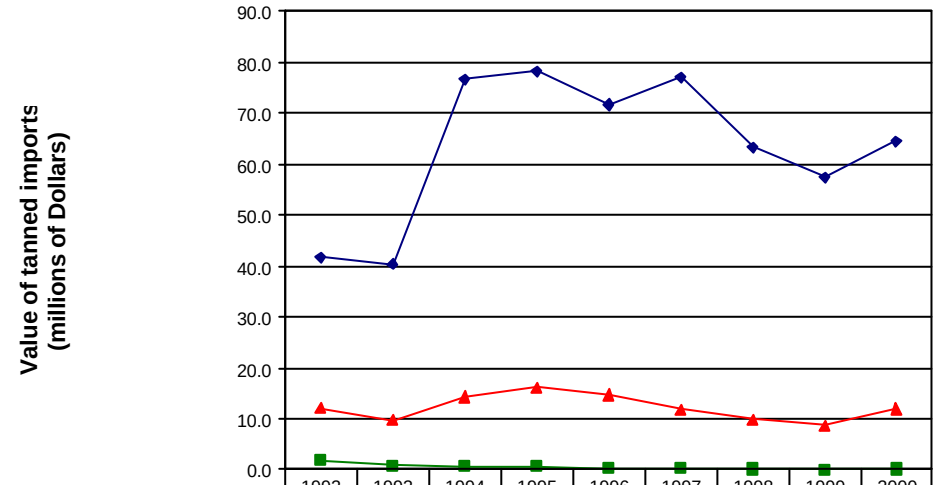
### *8.1.1 Leather imports*

**Figure 19: Dollar value of imports of un-tanned hides and skins**



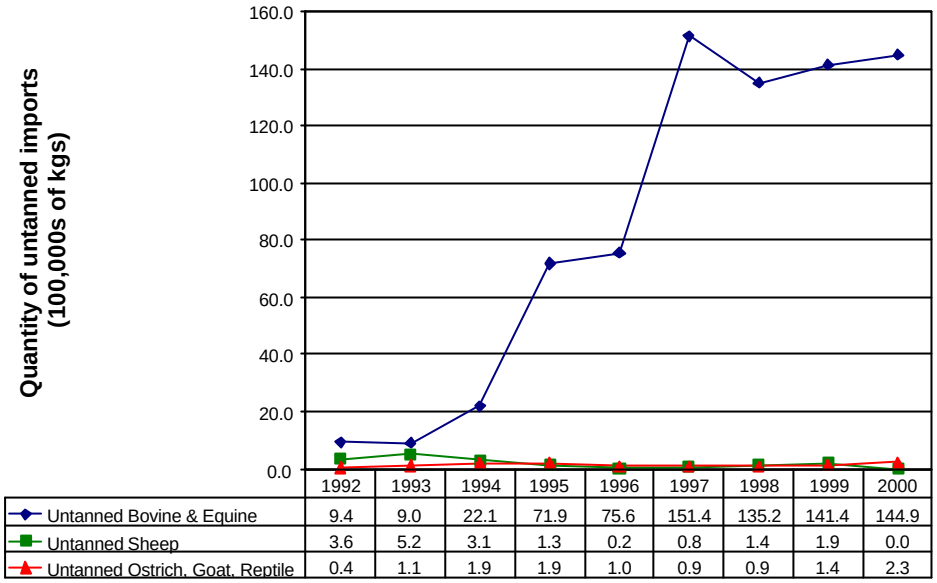

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 1.2 | 1.1 | 4.0 | 15.2 | 9.9 | 26.2 | 22.9 | 19.6 | 25.0 |
| Untanned Sheep | 0.3 | 0.3 | 0.2 | 1.2 | 0.2 | 0.5 | 0.4 | 0.6 | 0.0 |
| Untanned Ostrich, Goat, Reptile | 0.1 | 0.2 | 0.4 | 0.3 | 0.4 | 0.2 | 0.3 | 1.3 | 2.8 |

**Figure 20: Dollar value of imported tanned leather (including semi-processed)**



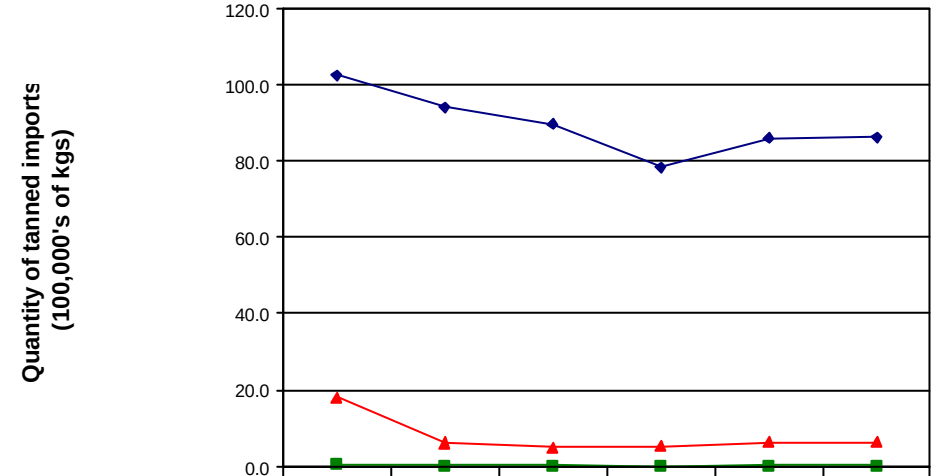

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Tanned Bovine & Equine | 41.7 | 40.3 | 76.6 | 78.2 | 71.7 | 77.1 | 63.3 | 57.4 | 64.4 |
| Tanned Sheep | 1.9 | 0.8 | 0.6 | 0.7 | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 |
| Tanned Ostrich, Goat, Reptile | 12.1 | 9.7 | 14.4 | 16.1 | 14.7 | 11.8 | 9.8 | 8.7 | 11.9 |

**Figure 21: Quantity in kilograms of un-tanned hides and skins imported**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 9.4 | 9.0 | 22.1 | 71.9 | 75.6 | 151.4 | 135.2 | 141.4 | 144.9 |
| Untanned Sheep | 3.6 | 5.2 | 3.1 | 1.3 | 0.2 | 0.8 | 1.4 | 1.9 | 0.0 |
| Untanned Ostrich, Goat, Reptile | 0.4 | 1.1 | 1.9 | 1.9 | 1.0 | 0.9 | 0.9 | 1.4 | 2.3 |

**Figure 22: Quantity in kilograms of tanned hides and skins imported (including semi-processed)**

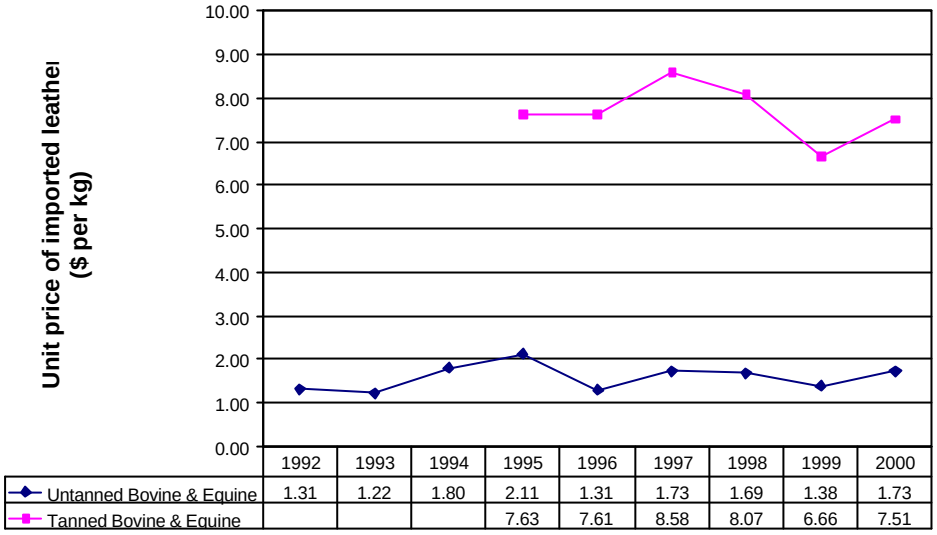



| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| Tanned Bovine & Equine | 102.6 | 94.2 | 89.9 | 78.4 | 86.1 | 86.3 |
| Tanned Sheep | 0.5 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 |
| Tanned Ostrich, Goat, Reptile | 18.1 | 6.1 | 4.9 | 5.3 | 6.3 | 6.3 |

Aggregate volumes imported (kilograms)

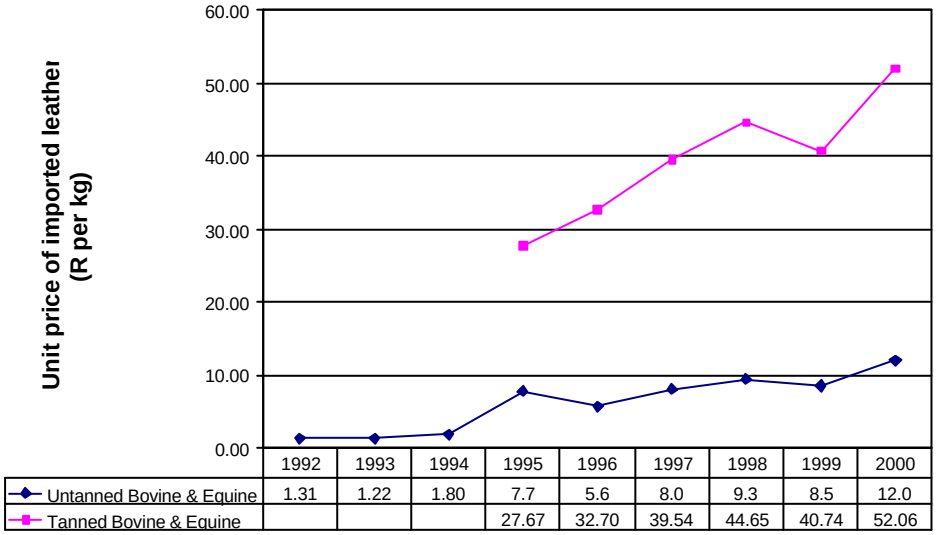
| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| Kilograms | 19,627,625 | 17,719,661 | 24,797,751 | 22,129,534 | 23,729,068 | 23,987,231 |

**Figure 23: Dollar price per kilogram of imports of skins hides & leather**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 1.31 | 1.22 | 1.80 | 2.11 | 1.31 | 1.73 | 1.69 | 1.38 | 1.73 |
| Tanned Bovine & Equine | | | | 7.63 | 7.61 | 8.58 | 8.07 | 6.66 | 7.51 |

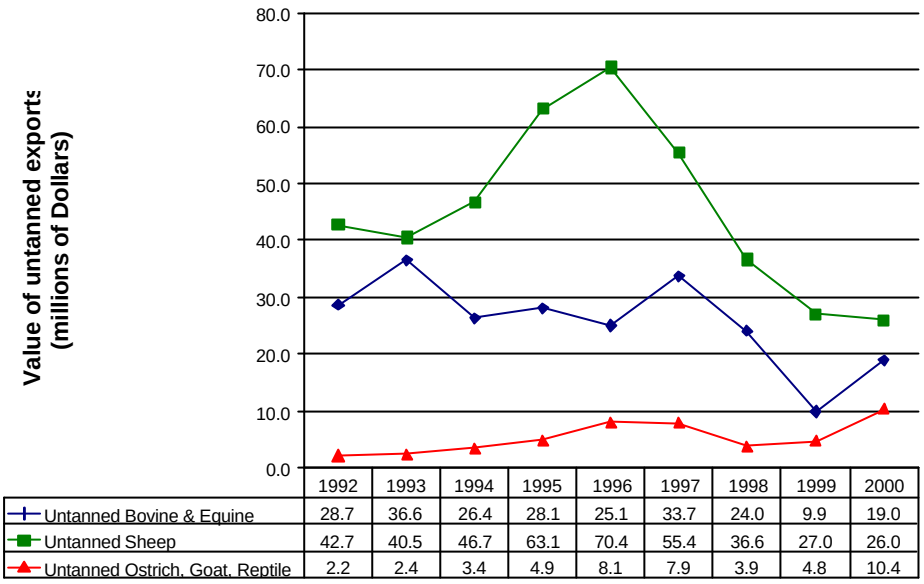
**Figure 24: Rand price per kilogram of imports of skins hides & leather**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 1.31 | 1.22 | 1.80 | 7.7 | 5.6 | 8.0 | 9.3 | 8.5 | 12.0 |
| Tanned Bovine & Equine | | | | 27.67 | 32.70 | 39.54 | 44.65 | 40.74 | 52.06 |

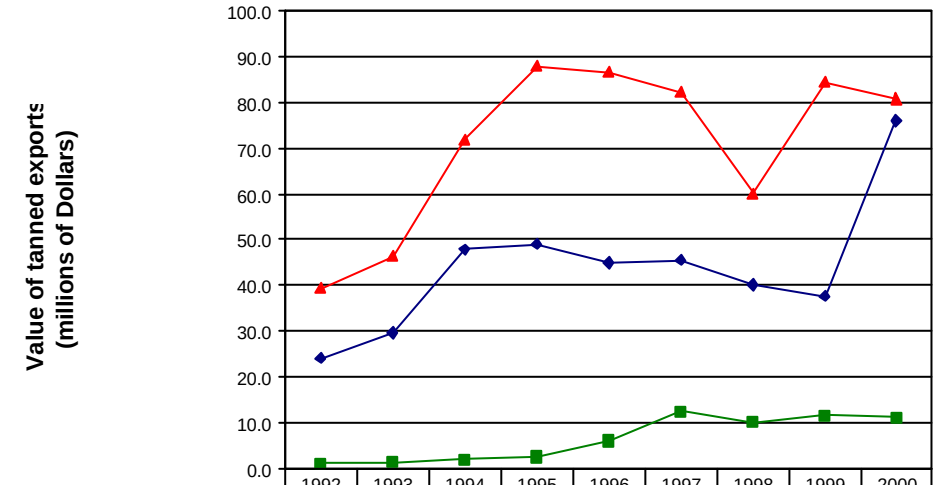
### 8.1.2 *Leather exports*

**Figure 25: Dollar value of exports of un-tanned hides and skins**



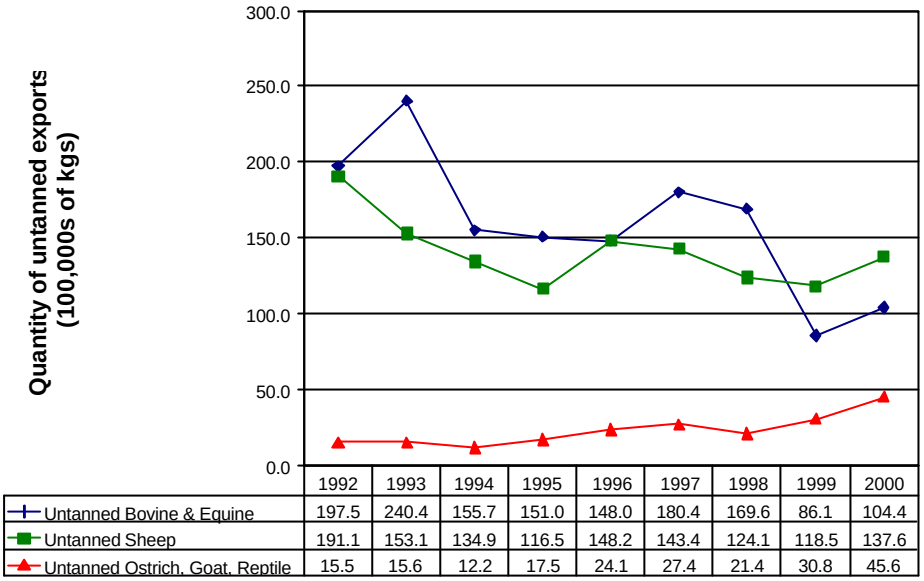

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 28.7 | 36.6 | 26.4 | 28.1 | 25.1 | 33.7 | 24.0 | 9.9 | 19.0 |
| Untanned Sheep | 42.7 | 40.5 | 46.7 | 63.1 | 70.4 | 55.4 | 36.6 | 27.0 | 26.0 |
| Untanned Ostrich, Goat, Reptile | 2.2 | 2.4 | 3.4 | 4.9 | 8.1 | 7.9 | 3.9 | 4.8 | 10.4 |

**Figure 26: Dollar value of tanned leather (including semi-processed)**



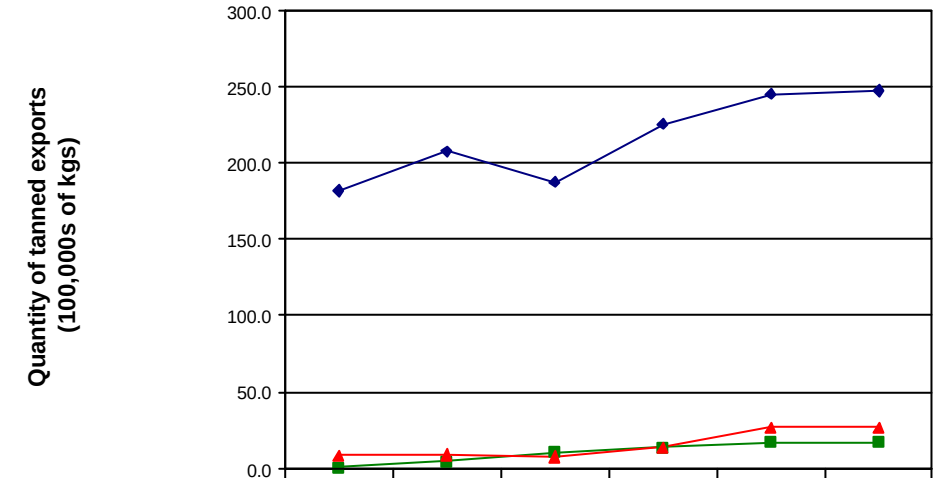

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Tanned Bovine & Equine | 23.9 | 29.7 | 47.8 | 49.0 | 44.9 | 45.4 | 40.1 | 37.6 | 76.0 |
| Tanned Sheep | 1.0 | 1.3 | 2.0 | 2.5 | 6.0 | 12.3 | 10.0 | 11.6 | 11.1 |
| Tanned Ostrich, Goat, Reptile | 39.5 | 46.4 | 72.0 | 88.0 | 86.6 | 82.2 | 60.1 | 84.5 | 80.8 |

**Figure 27: Quantity in kilograms of un-tanned hides and skins exported**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 197.5 | 240.4 | 155.7 | 151.0 | 148.0 | 180.4 | 169.6 | 86.1 | 104.4 |
| Untanned Sheep | 191.1 | 153.1 | 134.9 | 116.5 | 148.2 | 143.4 | 124.1 | 118.5 | 137.6 |
| Untanned Ostrich, Goat, Reptile | 15.5 | 15.6 | 12.2 | 17.5 | 24.1 | 27.4 | 21.4 | 30.8 | 45.6 |

**Figure 28: Quantity in kilograms of tanned hides and skins exported (including semi-processed)**

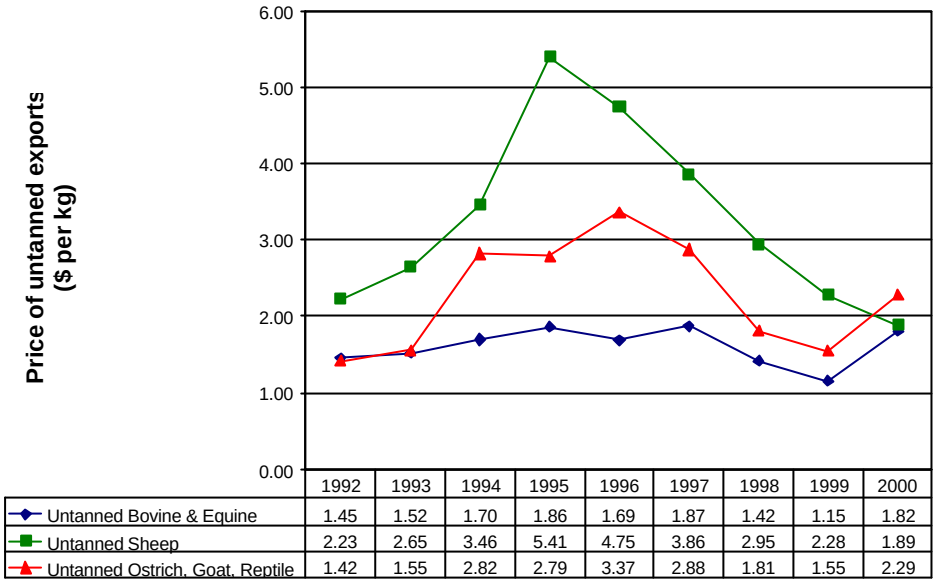



| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| Tanned Bovine & Equine | 182.2 | 207.8 | 187.8 | 225.6 | 245.4 | 247.6 |
| Tanned Sheep | 0.8 | 4.4 | 10.5 | 13.6 | 16.8 | 16.8 |
| Tanned Ostrich, Goat, Reptile | 8.1 | 8.7 | 7.5 | 13.4 | 26.5 | 26.7 |

Aggregate volumes exported (kilograms)

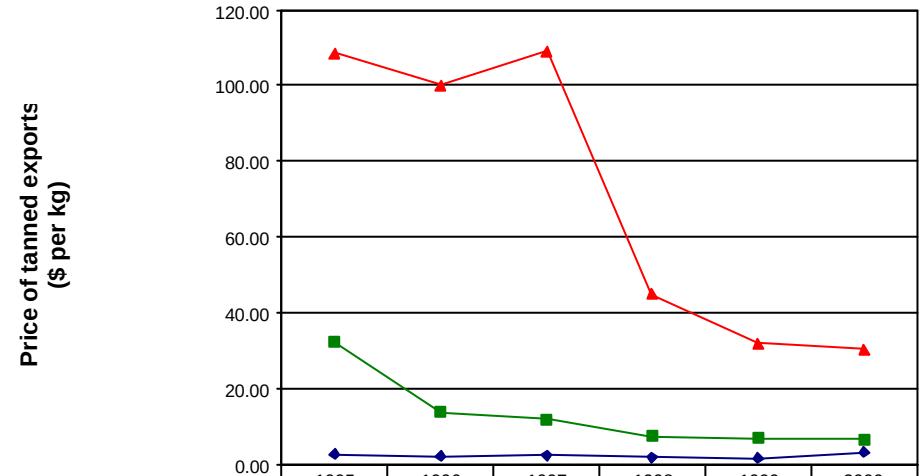
| Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| Kilograms | 47,601,212 | 54,106,835 | 55,698,298 | 56,753,188 | 52,408,695 | 57,874,928 |

**Figure 29: Dollar price per kilogram of exports of untanned skins and hides**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Untanned Bovine & Equine | 1.45 | 1.52 | 1.70 | 1.86 | 1.69 | 1.87 | 1.42 | 1.15 | 1.82 |
| Untanned Sheep | 2.23 | 2.65 | 3.46 | 5.41 | 4.75 | 3.86 | 2.95 | 2.28 | 1.89 |
| Untanned Ostrich, Goat, Reptile | 1.42 | 1.55 | 2.82 | 2.79 | 3.37 | 2.88 | 1.81 | 1.55 | 2.29 |

**Figure 30: Dollar price per kilogram of exports of tanned skins and hides (including semi-processed)**



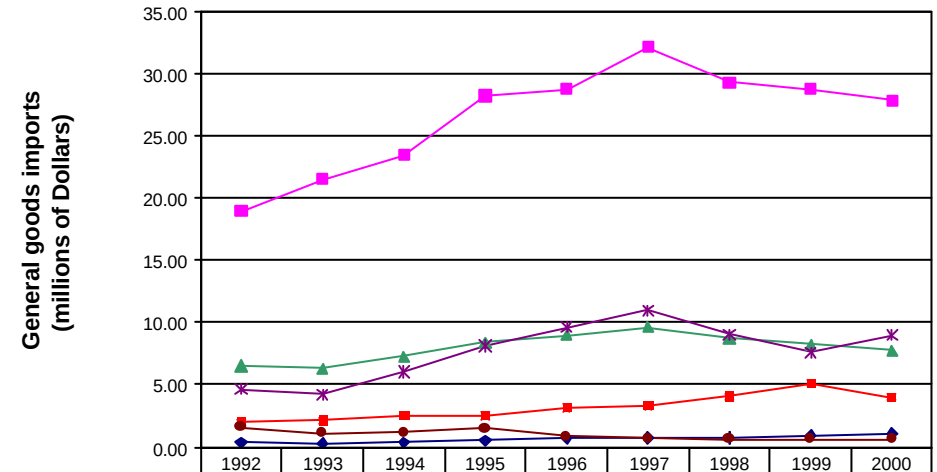

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| Tanned Bovine & Equine | 2.69 | 2.16 | 2.42 | 1.78 | 1.53 | 3.07 |
| Tanned Sheep | 32.19 | 13.76 | 11.79 | 7.35 | 6.90 | 6.58 |
| Tanned Ostrich, Goat, Reptile | 108.58 | 99.95 | 109.05 | 45.02 | 31.86 | 30.30 |

## 8.2 Import/Export breakdown for ch. 42 – general leather goods

- Source: Derived from 'free on board' data supplied by Customs and Excise.
- The categories are composed from the figures supplied according to the various codes outlined in Table 29 (p. 71 below) in the following way:
    - Saddlery = codes starting with 42.01
    - Travel goods, trunks, suitcases = codes starting with 42.021, 42.029
    - Handbags = codes starting with 42.022
    - Small articles (of a kind normally carried in pocket/handbag) = codes starting with 42.023
    - Clothing (fashion garments, apparel, sports gloves, belts, protective clothing) = codes starting with 42.03
    - Other (leather used in machinery and articles of gut such as catgut) = codes starting with 42.04 & 42.06
    - NB: Codes starting with 42.05 have been included with automotive exports for the purposes of this report and are therefore not represented in graphs on ch. 42. items.
- Please note that although every care has been taken to ensure the accuracy of these figures, errors are still possible. Please contact Richard Ballard at the University of Natal (ballardr@nu.ac.za) if you would like the excel files in order to be able to see how the figures were calculated.

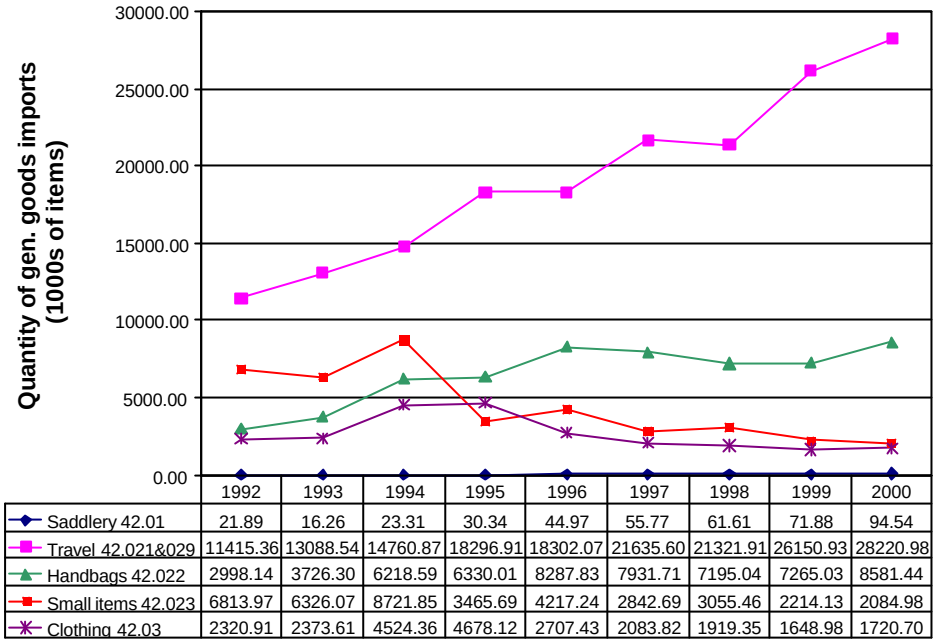
### *8.2.1 General goods imports*

**Figure 31: Dollar value of imports of general goods**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Saddlery 42.01 | 0.37 | 0.30 | 0.35 | 0.52 | 0.70 | 0.76 | 0.74 | 0.95 | 1.07 |
| Travel 42.021&029 | 18.93 | 21.53 | 23.43 | 28.20 | 28.70 | 32.12 | 29.28 | 28.72 | 27.82 |
| Handbags 42.022 | 6.52 | 6.35 | 7.27 | 8.36 | 8.96 | 9.66 | 8.75 | 8.25 | 7.72 |
| Small items 42.023 | 1.97 | 2.15 | 2.55 | 2.46 | 3.18 | 3.34 | 4.05 | 5.15 | 4.01 |
| Clothing 42.03 | 4.68 | 4.27 | 6.05 | 8.13 | 9.62 | 11.00 | 9.06 | 7.63 | 8.99 |
| Other 42.04 & 06 | 1.57 | 1.08 | 1.19 | 1.51 | 0.84 | 0.73 | 0.63 | 0.63 | 0.60 |

**Figure 32: Quantity per item of general goods imports**

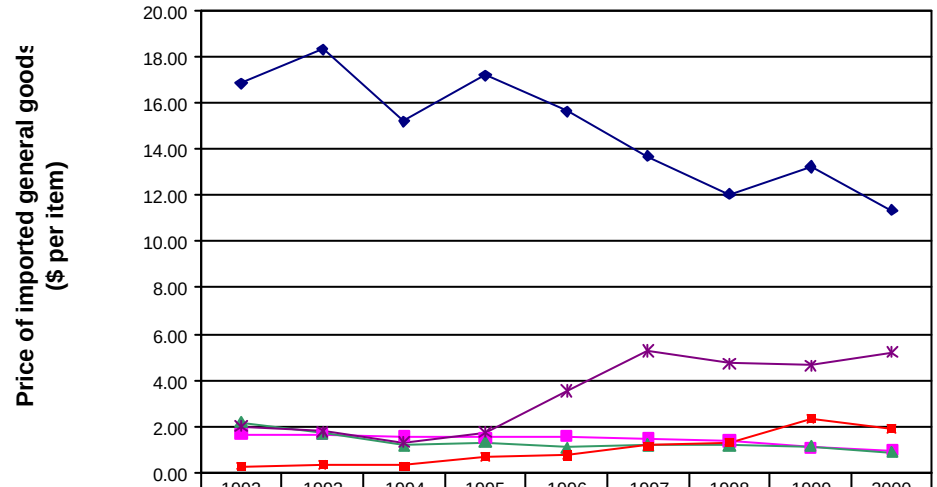



| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Saddlery 42.01 | 21.89 | 16.26 | 23.31 | 30.34 | 44.97 | 55.77 | 61.61 | 71.88 | 94.54 |
| Travel 42.021&029 | 11415.36 | 13088.54 | 14760.87 | 18296.91 | 18302.07 | 21635.60 | 21321.91 | 26150.93 | 28220.98 |
| Handbags 42.022 | 2998.14 | 3726.30 | 6218.59 | 6330.01 | 8287.83 | 7931.71 | 7195.04 | 7265.03 | 8581.44 |
| Small items 42.023 | 6813.97 | 6326.07 | 8721.85 | 3465.69 | 4217.24 | 2842.69 | 3055.46 | 2214.13 | 2084.98 |
| Clothing 42.03 | 2320.91 | 2373.61 | 4524.36 | 4678.12 | 2707.43 | 2083.82 | 1919.35 | 1648.98 | 1720.70 |

Aggregate volumes of general goods imported (number of items)

| Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Items | 23,570,270 | 25,530,771 | 34,248,969 | 32,801,071 | 33,559,550 | 34,549,592 | 33,553,369 | 37,350,945 | 40,702,644 |

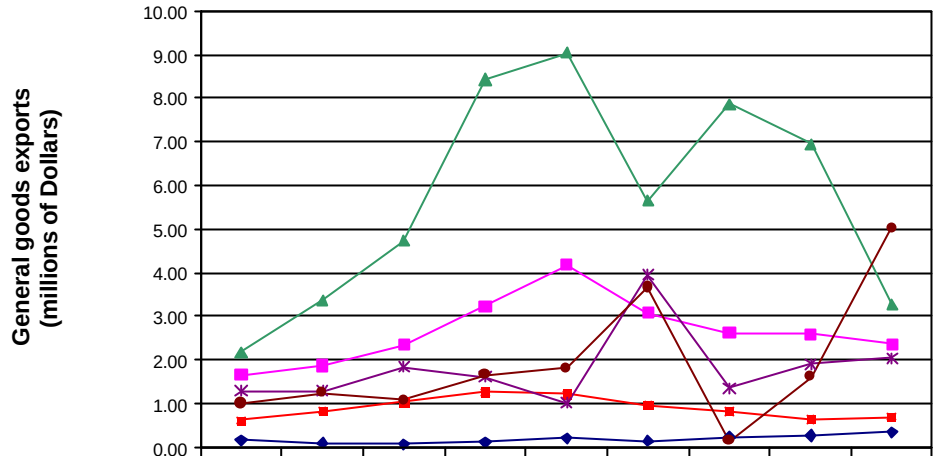
**Figure 33: Dollar price per item of general goods imports**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Saddlery 42.01 | 16.84 | 18.32 | 15.19 | 17.20 | 15.62 | 13.68 | 12.05 | 13.23 | 11.36 |
| Travel 42.021&029 | 1.66 | 1.65 | 1.59 | 1.54 | 1.57 | 1.48 | 1.37 | 1.10 | 0.99 |
| Handbags 42.022 | 2.18 | 1.70 | 1.17 | 1.32 | 1.08 | 1.22 | 1.22 | 1.14 | 0.90 |
| Small items 42.023 | 0.29 | 0.34 | 0.29 | 0.71 | 0.75 | 1.17 | 1.33 | 2.33 | 1.92 |
| Clothing 42.03 | 2.02 | 1.80 | 1.34 | 1.74 | 3.55 | 5.28 | 4.72 | 4.63 | 5.22 |

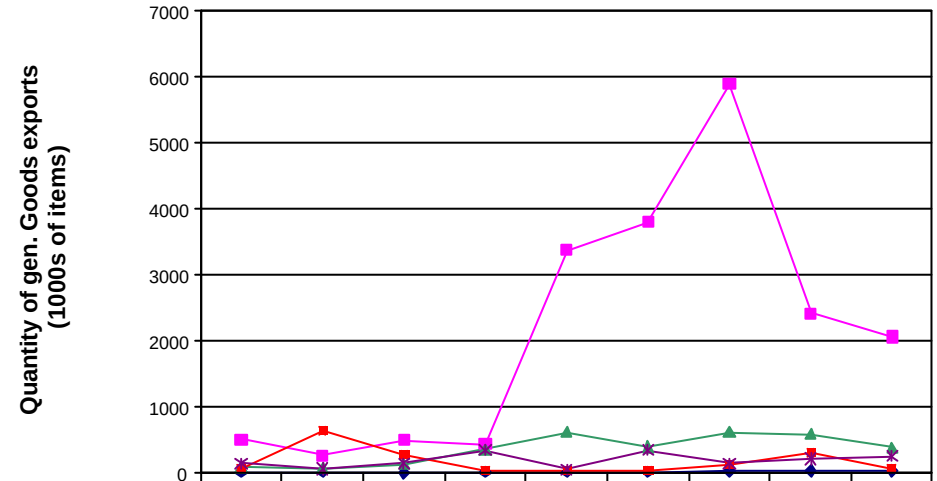
### *8.2.2 General goods exports*

**Figure 34: Dollar value of exports of general goods**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Saddlery 42.01 | 0.15 | 0.10 | 0.06 | 0.11 | 0.19 | 0.14 | 0.23 | 0.26 | 0.34 |
| Travel 42.021&029 | 1.65 | 1.86 | 2.35 | 3.24 | 4.18 | 3.07 | 2.62 | 2.59 | 2.36 |
| Handbags 42.022 | 2.17 | 3.37 | 4.73 | 8.43 | 9.03 | 5.64 | 7.87 | 6.95 | 3.27 |
| Small items 42.023 | 0.61 | 0.83 | 1.03 | 1.25 | 1.21 | 0.96 | 0.82 | 0.62 | 0.68 |
| Clothing 42.03 | 1.29 | 1.29 | 1.83 | 1.60 | 1.01 | 3.94 | 1.34 | 1.90 | 2.04 |
| Other 42.04 & 06 | 1.00 | 1.23 | 1.07 | 1.65 | 1.80 | 3.66 | 0.13 | 1.60 | 5.02 |

**Figure 35: Quantity of items of general goods exports**



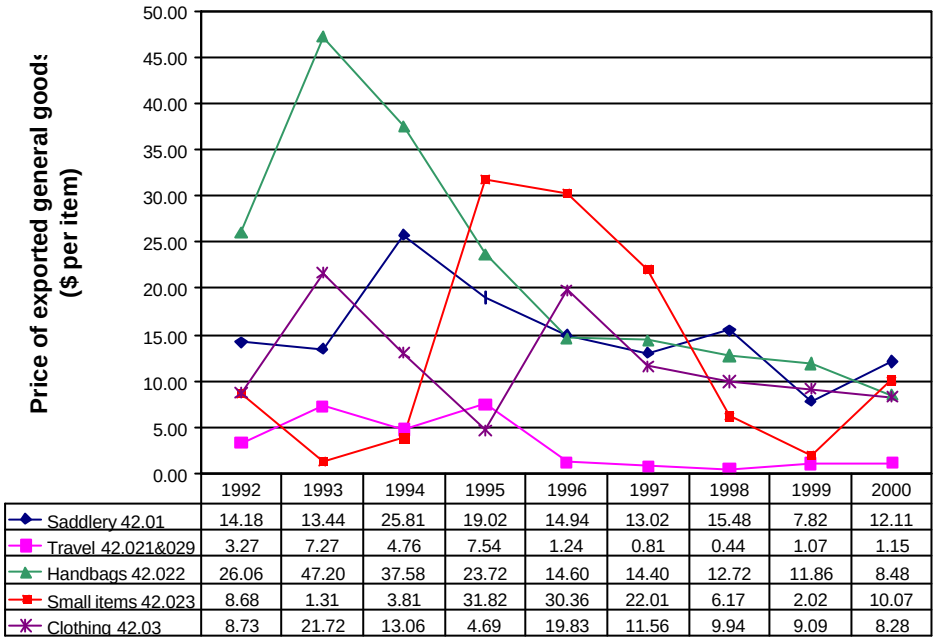

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Saddlery 42.01 | 10.428 | 7.293 | 2.328 | 5.802 | 12.831 | 10.418 | 14.899 | 32.682 | 28.323 |
| Travel 42.021&029 | 503.986 | 255.912 | 493.346 | 429.314 | 3368.525 | 3794.171 | 5879.532 | 2419.483 | 2055.998 |
| Handbags 42.022 | 83.359 | 71.417 | 125.775 | 355.372 | 618.752 | 391.842 | 618.653 | 585.916 | 385.202 |
| Small items 42.023 | 69.971 | 631.773 | 269.412 | 39.387 | 39.867 | 43.565 | 132.256 | 305.804 | 67.635 |
| Clothing 42.03 | 147.853 | 59.38 | 140.05 | 341.94 | 50.915 | 340.389 | 135.139 | 209.191 | 246.63 |

(Note – 'Other' cannot be represented here as figures supplied by customs & excise were measured in different units of measure)

Aggregate volumes of general goods exported (number of items)

| Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Items | 815,597 | 1,025,775 | 1,030,911 | 1,171,815 | 4,090,890 | 4,580,385 | 6,780,479 | 3,553,076 | 2,783,788 |

**Figure 36: Dollar price per item of general goods exports**



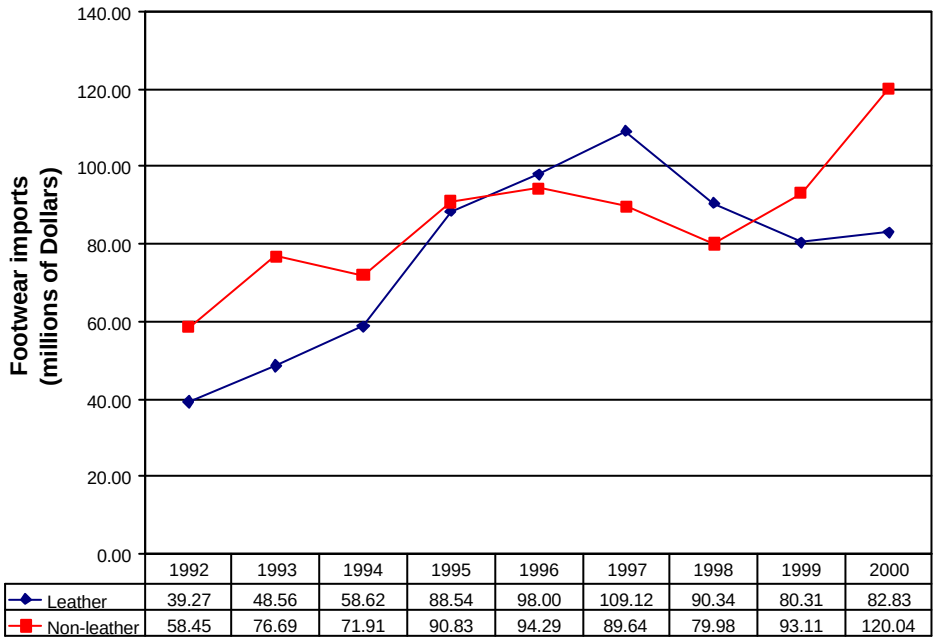

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Saddlery 42.01 | 14.18 | 13.44 | 25.81 | 19.02 | 14.94 | 13.02 | 15.48 | 7.82 | 12.11 |
| Travel 42.021&029 | 3.27 | 7.27 | 4.76 | 7.54 | 1.24 | 0.81 | 0.44 | 1.07 | 1.15 |
| Handbags 42.022 | 26.06 | 47.20 | 37.58 | 23.72 | 14.60 | 14.40 | 12.72 | 11.86 | 8.48 |
| Small items 42.023 | 8.68 | 1.31 | 3.81 | 31.82 | 30.36 | 22.01 | 6.17 | 2.02 | 10.07 |
| Clothing 42.03 | 8.73 | 21.72 | 13.06 | 4.69 | 19.83 | 11.56 | 9.94 | 9.09 | 8.28 |

## 8.3 Import breakdown for ch 64 – footwear

- Source: Derived from 'free on board' data supplied by Customs and Excise.
- The categories are composed from the figures supplied according to the various codes outlined in Table 30 (p. 72) in the following way:
  - Leather footwear (leather and composition leather): Codes 64.03, 64.042
  - Non-leather footwear (rubber, textiles, etc): Codes 64. 01, 64.02, 64.041, 65.052, 64.059, 64.06
- Please note that although every care has been taken to ensure the accuracy of these figures, errors are still possible. Please contact Richard Ballard at the University of Natal (ballardr@nu.ac.za) if you would like the excel files in order to be able to see how the figures were calculated.

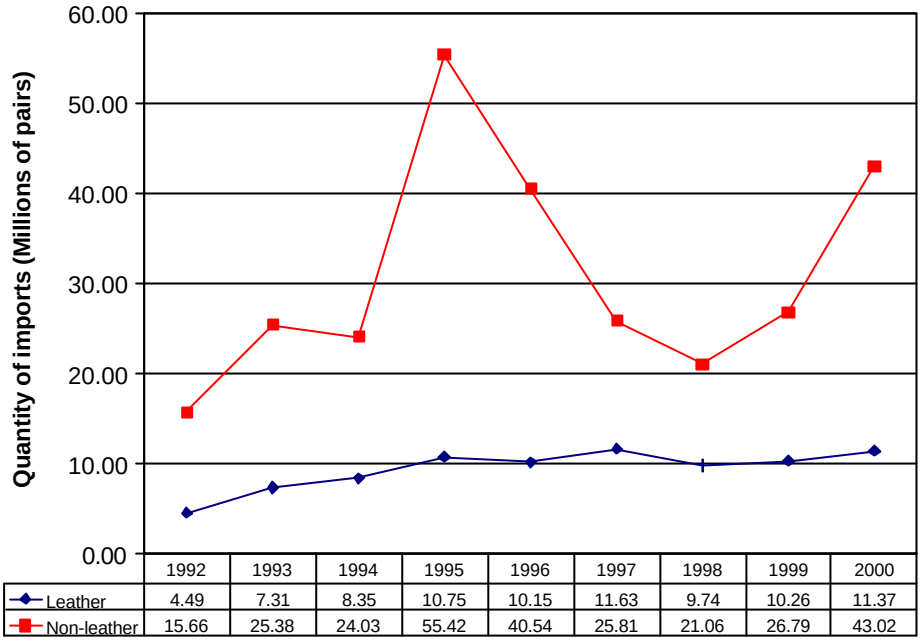
### *8.3.1 Footwear imports*

**Figure 37: Dollar value of imports of footwear**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Leather | 39.27 | 48.56 | 58.62 | 88.54 | 98.00 | 109.12 | 90.34 | 80.31 | 82.83 |
| Non-leather | 58.45 | 76.69 | 71.91 | 90.83 | 94.29 | 89.64 | 79.98 | 93.11 | 120.04 |

**Figure 38: Quantity in pairs of footwear imports**

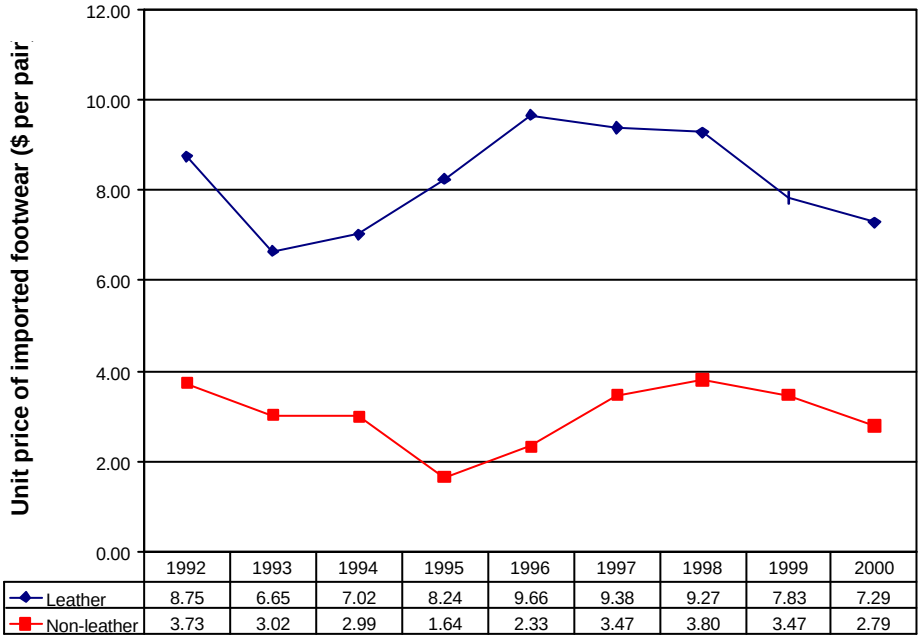



| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Leather | 4.49 | 7.31 | 8.35 | 10.75 | 10.15 | 11.63 | 9.74 | 10.26 | 11.37 |
| Non-leather | 15.66 | 25.38 | 24.03 | 55.42 | 40.54 | 25.81 | 21.06 | 26.79 | 43.02 |

Aggregate volumes imported (number of pairs)

| Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Pairs | 20,153,502 | 32,688,138 | 32,377,808 | 66,170,537 | 50,682,813 | 37,442,881 | 30,804,820 | 37,052,239 | 54,384,836 |

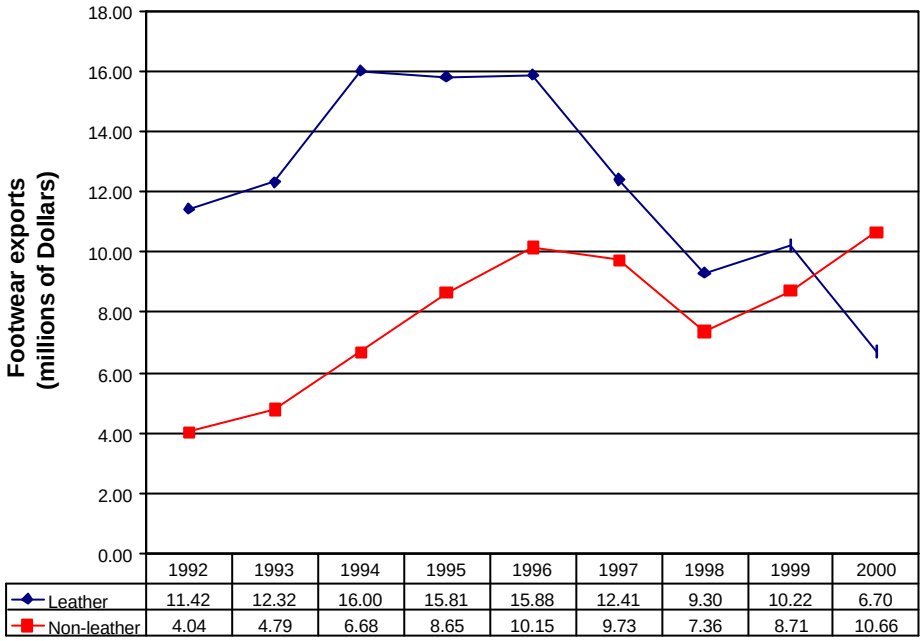
**Figure 39: Dollar price per pair of footwear imports**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Leather | 8.75 | 6.65 | 7.02 | 8.24 | 9.66 | 9.38 | 9.27 | 7.83 | 7.29 |
| Non-leather | 3.73 | 3.02 | 2.99 | 1.64 | 2.33 | 3.47 | 3.80 | 3.47 | 2.79 |

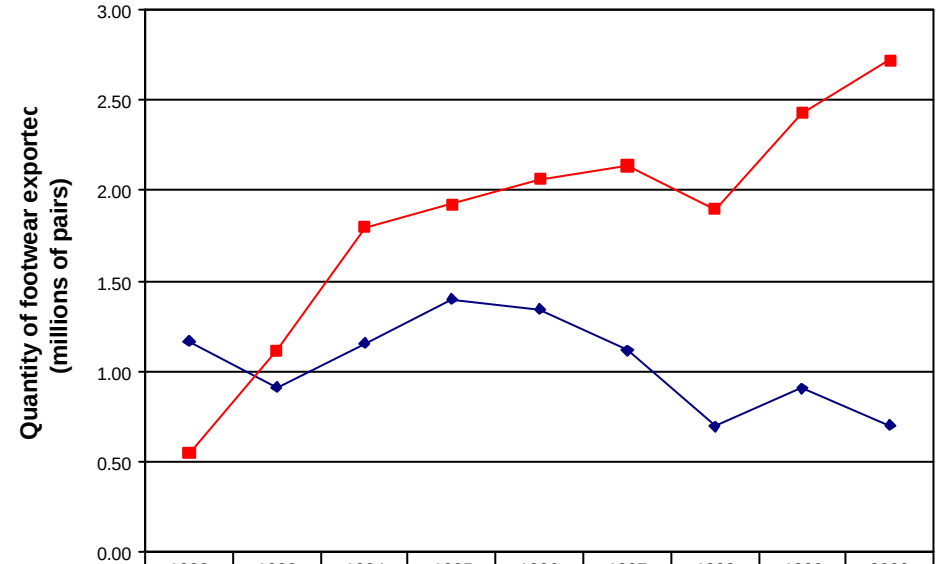
### *8.3.2 Footwear exports*

**Figure 40: Dollar value of exports of footwear**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Leather | 11.42 | 12.32 | 16.00 | 15.81 | 15.88 | 12.41 | 9.30 | 10.22 | 6.70 |
| Non-leather | 4.04 | 4.79 | 6.68 | 8.65 | 10.15 | 9.73 | 7.36 | 8.71 | 10.66 |

**Figure 41: Quantity in pairs of footwear exports**

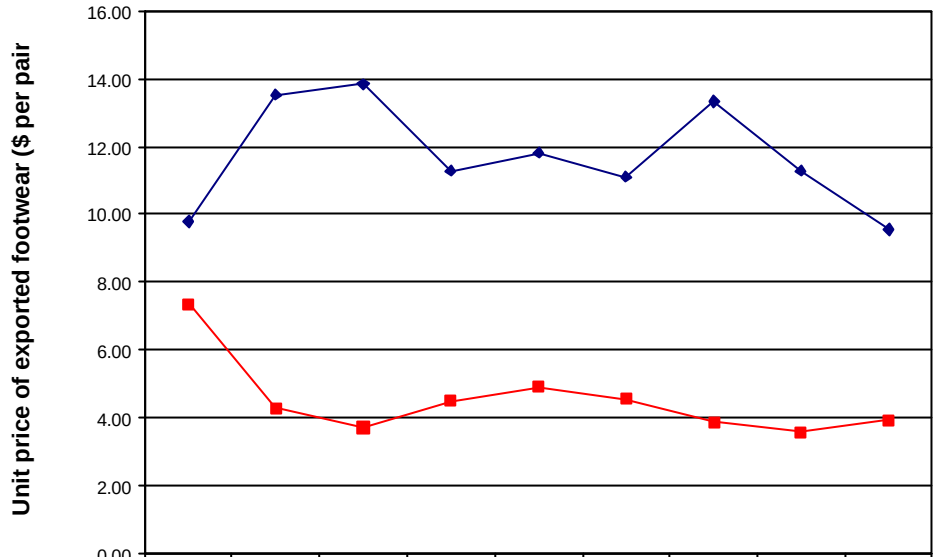



| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Leather | 1.17 | 0.91 | 1.16 | 1.40 | 1.34 | 1.12 | 0.70 | 0.91 | 0.70 |
| Non-leather | 0.55 | 1.12 | 1.80 | 1.93 | 2.07 | 2.14 | 1.90 | 2.43 | 2.72 |

Aggregate volumes exported (number of pairs)

| Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Pairs | 1,716,431 | 2,027,068 | 2,955,175 | 3,326,080 | 3,408,526 | 3,256,171 | 2,596,106 | 3,333,604 | 3,420,837 |

**Figure 42: Dollar price per pair of footwear exports**




| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Leather | 9.79 | 13.51 | 13.84 | 11.29 | 11.82 | 11.09 | 13.33 | 11.29 | 9.56 |
| Non-leather | 7.35 | 4.29 | 3.71 | 4.49 | 4.91 | 4.55 | 3.88 | 3.58 | 3.92 |

## 8.4 Tariffs on imported hides, leather, leather goods and footwear

**Table 28: Import duties - Customs & Excise Chapter 41 - Raw hides and skins (excluding furskins) and leather**

| *Code and Description* | *Duty (including MFNs)* | *Duty on SADC Countries* | *Zimbabwe Trade Agreement* | *Last Revised* |
|---|---|---|---|---|
| **41.0110** Whole hides and skins of bovine animals of a mass per skin not exceeding 8kg when simply dried, 10kg when dry-salted, or 14kg when fresh, wet salted or otherwise preserved | Free | | | 9 Dec 1994 |
| **41.0121** Other hides and skins of bovine animals fresh or wet-salted but not tanned, parchment dressed or further prepared: whole | Free | | | 9 Dec 1994 |
| **41.0122** Other hides and skins of bovine animals fresh or wet-salted but not tanned, parchment dressed or further prepared: butts and bends | Free | | | 9 Dec 1994 |
| **41.0129** Other hides and skins of bovine animals fresh or wet-salted but not tanned, parchment dressed or further prepared: other | Free | | | 9 Dec 1994 |
| **41.0130** Other hides and skins of bovine animals, otherwise preserved, but not tanned, parchment dressed or further prepared | Free | | | 9 Dec 1994 |
| **41.0140** Hides and skins of equine animals (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment dressed or further prepared) | Free | | | 9 Dec 1994 |
| **41.0210** Raw skins of sheep or lambs (fresh or salted, dried, limed, pickled or otherwise preserved but not further prepared (excluding those excluded by note 1(c) of this chapter) with wool on | Free | | | 9 Dec 1994 |
| **41.0221** Raw skins of sheep or lambs (fresh or salted, dried, limed, pickled or otherwise preserved but not further prepared (excl. those excluded by note 1(c) of this chapter)without wool on:pickled | Free | | | 9 Dec 1994 |
| **41.0229** Raw skins of sheep or lambs (fresh or salted, dried, limed, pickled or otherwise preserved but not further prepared (excl. those excluded by note 1(c) of this chapter)without wool on: other | Free | | | 9 Dec 1994 |
| **41.0310** Other raw hides and skins (fresh, or salted dried limed, pickled or otherwise preserved but not further prepared, (excl. those excluded by note 1(b) or 1(c) of this Chapter): of goats or kids | Free | | | 9 Dec 1994 |
| **41.0320** Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved but not further prepared, (excl. those excluded by note 1(b) or 1(c) of this chapter): of reptiles | Free | | | 9 Dec 1994 |
| **41.0390** Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved but not further prepared, (excluding those excluded by note 1(b) or 1(c) of this chapter): other | Free | | | 9 Dec 1994 |
| **41.041020** Whole bovine skin leather, of a unit surface area not exceeding 2,6 m2, without hair on (excluding leather of TH no. 41.08 or 41.09) Less than 2.15 m2 (excluding flesh splits) | Free | Free | 20% - 11/B | 29 Jan 1999 |
| **41.041090** Whole bovine skin leather, of a unit surface area not exceeding 2.6 m2 (Excluding leather of T.H. no 41.08 or 41.09):Other | 10% | Free | | 28 Dec 1999 |
| **41.0421** Other bovine leather, vegetable pre-tanned but not further prepared, whether or not split (excluding leather of TH 41.08 or 41.09) | 10% | Free | 20% | 28 Dec 1999 |
| **41.0422** Other bovine leather, otherwise pre-tanned but not further prepared, whether or not split (excluding leather of TH 41.08 or 41.09) | 10% | Free | 20% | 28 Dec 1999 |
| **41.0429** Other bovine and equine leather, tanned or retanned but not further prepared, whether or not split other (excluding leather of TH 41.08 or 41.09): other | 10% | Free | 20% | 28 Dec 1999 |
| **41.0431** Other bovine and equine leather, without hair on parchment-dressed or prepared after tanning: (excluding leather of TH 41.08 or 41.09): full grain and grain splits | 10% | Free | 125/B<50% >20% | 1 Feb 2000 |
| **41.0439** Other bovine and equine leather, without hair on, parchment-dressed or prepared after tanning (excluding leather of TH 41.08 or 41.09): other | 10% | Free | 255/B<60% >20% | 10 Feb 2000 |
| **41.0511** Sheep or lamb skin leather, without wool on (excluding leather of TH no. 41.08 or 41.09): tanned or retanned but not further prepared, whether or not split: vegetable pre-tanned | 10% | Free | | 28 Dec 1999 |
| **41.0512** Sheep or lamb skin leather, without wool on (excluding leather of TH no. 41.08 or 41.09): tanned or retanned but not further prepared, whether or not split: otherwise pre-tanned | 10% | Free | | 28 Dec 1999 |
| **41.0519** Sheep or lamb skin leather, without wool on (excluding leather of TH no. 41.08 or 41.09): tanned or retanned but not further prepared, whether or not split: other | 10% | Free | | 28 Dec 1999 |
| **41.0520** Sheep or lamb skin leather, without wool on (excluding leather of TH no. 41.08 or 41.09): parchment-dressed or prepared after tanning | 10% | Free | | 28 Dec 1999 |
| **41.0611** Goat or kid skin leather, without hair on (excl. leather of TH 41.08 or 41.09), not further prepared: vegetable pre-tanned | Free | | | 21 Jan 1995 |

| | | | | |
|---|---|---|---|---|
| **41.0612** Goat or kid skin leather, without hair on (excl. leather of TH 41.08 or 41.09), not further prepared: otherwise pre-tanned | Free | | | 21 Jan 1995 |
| **41.0619** Goat or kid skin leather, without hair on (excl. leather of TH 41.08 or 41.09): tanned or retanned but not further prepared, whether or not split: other | Free | | | 21 Jan 1995 |
| **41.0620** Goat or kid skin leather, without hair on (excluding leather of TH no. 41.08 or 41.09): parchment-dressed or prepared after tanning | Free | | | 21 Jan 1995 |
| **41.0710** Leather of other animals, without hair on (excluding leather of TH no. 41.08 or 41.09): of swine | Free | | | 21 Jan 1995 |
| **41.0721** Leather of other animals, without hair on (excluding leather of TH no. 41.08 or 41.09): of reptiles: vegetable pre-tanned | Free | | | 21 Jan 1995 |
| **41.0729** Other leather of other animals, without hair on (excluding leather of TH no. 41.08 or 41.09): of reptiles: other | Free | | | 21 Jan 1995 |
| **41.0790** Leather of other animals, without hair on (excluding leather of TH no. 41.08 or 41.09): of other animals: other | Free | | | 21 Jan 1995 |
| **41.0800** Chamois (including combination chamois) leather | Free | | | 7 Feb 1997 |
| **41.0900** Patent leather and patent laminated leather; metallised leather | Free | | | 21 Jan 1995 |
| **41.1000** Parings and other waste of leather or of composition leather, not suitable for the manufacture of leather articles; leather dust, powder and flour | Free | | | 3 Aug 92 |
| **41.1100** Composition leather with a basis of leather or leather fibre, in slabs, sheets or strip, whether or not in rolls | Free | | | 7 Feb 1997 |

(Adapted from CSS & Cargo Info Africa http://www.rapidttp.co.za/tariff/index.html, downloaded on 25 April 2001)

**Table 29: Import duties - Customs and Excise Chapter 42 - Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles**

| *Code and description* | *Duty (including MFNs)* | *Duty on SADC Countries* | *Zimbabwe Trade Agreement* | *Last Revised* |
|---|---|---|---|---|
| **42.0100** Saddlery and harness for any animal (including traces, leads, knee pads, muzzles, saddle cloths, saddle bags, dog coats and the like), of any material | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0211** Trunks, suit-cases, vanity-cases, executive-cases brief-cases, school satchels and similar containers with outer surface of leather, of composition leather or of patent leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0212** Trunks, suit-cases, vanity-cases, executive-cases brief-cases school satchels and similar containers of leather or composition leather: with outer surface of plastic or of textile materials: | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0219** Other trunks, suit-cases, vanity-cases, executive-cases brief-cases, school satchels and similar containers of leather or composition leather: other | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0221** Handbags whether or not with shoulder strap, including those without handle with outer surface of leather, of composition leather or of patent leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0222** Handbags whether or not with shoulder strap, including those without handle with outer surface of plastic sheeting or of textile materials | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0229** Handbags whether or not with shoulder strap, including those without handle of leather or composition leather: other | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0231** Articles of a kind normally carried in the pocket or in the handbag: with outer surface of composite leather, leather or of patent leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0232** Articles of a kind normally carried in the pocket or in the handbag: with outer surface of plastic sheeting or of textile materials | 30% | 24% | | 28 Dec 1999 |
| **42.0239** Other articles of a kind normally carried in the pocket or in the handbag: other | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0291** Other travel goods, handbags and similar containers with outer surface of leather, of composition leather or of patent leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0292** Other travel goods, handbags and similar containers of leather or of composition leather: with outer surface of plastic sheeting or of textile materials | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0299** Other travel goods, handbags and similar containers of leather or of composition leather Other | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0310** Articles of apparel of leather or of composition leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0321** Gloves, mittens and mitts of leather or of composition leather: specially designed for use in sports | 10% | Free | 25% | 28 Dec 1999 |
| **42.0329** Other gloves, mittens and mitts of leather or of composition leather | 20% | 15% | 25% | 28 Dec 1999 |
| **42.0330** Belts and bandoliers of leather or of composition leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0340** Other clothing accessories of leather or of composition leather | 30% | 24% | 25% | 28 Dec 1999 |
| **42.0400** Articles of leather or of composition leather, of a kind used in machinery or mechanical appliances or for other technical uses | Free | | | 18 Feb 1997 |
| **42.0500** Other articles of leather or of composition leather | 15% | Free | 20% | 28 Dec 1999 |
| **42.0610** Articles of gut (other than silk-worm gut), of goldbeaters' skin, of bladders or of tendons: catgut | 15% | Free | | 28 Dec 1999 |
| **42.0690** Articles of gut (other than silk-worm gut), of goldbeaters' skin, of bladders or of tendons: other | 15% | Free | | 28 Dec 1999 |

(Adapted from CSS & Cargo Info Africa http://www.rapidttp.co.za/tariff/index.html, downloaded on 25 April 2001)

**Table 30: Import duties - Customs & Excise Chapter 64 - Footwear, gaiters and the like; parts of such articles (Revised 3 October 2000)**

| *Code and description* | *Duty (including MFNs)* | *Duty on EU* | *Duty on SADC Countries* | *Zimbabwe Trade Agreement* |
|---|---|---|---|---|
| **64.0110** Waterproof footwear with outer sole and uppers of rubber or plastic, uppers not fixed to the sole or assembled incorporating a protective metal toe-cap | 30% | | 26% | 20% |
| **64.0191** Other waterproof footwear with outer soles and uppers of rubber or of plastic, uppers not fixed to the sole or assembled, covering the knee | 30% | | 26% | 20% |
| **64.0192** Other waterproof footwear with outer soles and uppers of rubber or of plastic, uppers not fixed to the sole or assembled, covering the ankle but not the knee | 30% | | 26% | 20% |
| **64.0199** Other waterproof footwear with outer soles and uppers of rubber or of plastic, the uppers neither fixed to the sole nor assembled by stitching, riveting screwing, plugging or similar process | 30% | | 26% | 20% |
| **64.0212** Ski-boots and cross country ski footwear and snowboard boots | 30% | | 26% | |
| **64.0219** Other sports footwear | 30% or R5 per pair | 30% | 26% | 20% |
| **64.0220** Other footwear with outer soles and with upper straps or thongs assembled to the sole by means of plugs | 30% or R5 per pair | 30% | 26% | 20% |
| **64.0230** Other footwear with outer soles and uppers of rubber incorporating a protective metal toe cap | 30% or R5 per pair | 30% | 26% | 20% |
| **64.0291** Other footwear covering the ankle | 30% or R5 per pair | 30% | 26% | 20% |
| **64.0299** Other footwear with outer soles and uppers of rubber or plastic | 30% or R5 per pair | 30% | 26% | 20% |
| **64.0312** Ski-boots & cross country ski footwear & snowboard boots: with outer soles of rubber or plastics & uppers of leather | 30% | | 26% | |
| **64.0319** Other sports footwear, with outer soles of rubber plastics, leather or composition leather and uppers of leather: other | 30% | | 26% | |
| **64.0320** Footwear with outer soles of leather and uppers which consist of leather straps across instep and around big toe | 30% | | 26% | |
| **64.0330** Footwear made on a base or platform of wood, not having an inner sole or protective metal toe-cap, with outer soles of rubber or plastics, with leather uppers | 30% | | 26% | |
| **64.0340** Other footwear, with outer soles of rubber, plastic, leather or composition leather and uppers of leather, incorporating protective metal toe-caps | 30% | | 26% | |
| **64.0351** Other footwear with outer soles of leather and uppers of leather, covering the ankle | 30% | | 26% | |
| **64.0359** Other footwear, with outer soles of leather and uppers of leather | 30% | | 26% | |
| **64.0391** Other footwear with outer soles of rubber, plastics or composition leather and uppers of leather, covering the ankle | 30% | | 26% | |
| **64.0399** Other footwear, with outer soles of rubber, plastics or composition leather and uppers of leather | 30% | | 26% | |
| **64.041105** Footwear with outer soles of rubber of plastics, and uppers of textile materials: ski boots and cross-country ski footwear | 30% | | 26% | |
| **64.041110** Footwear with outer soles of rubber of plastics, and uppers of textile materials: spiked athletic shoes | 15% | | Free | |
| **64.041190** Other sports footwear with outer soles of rubber or plastics and uppers of textile materials: other | 30% or R5 per pair | 30% | 26% | |
| **64.041910** Footwear with outer soles of rubber or plastics and uppers of textile materials: bedroom slippers | 30% | | 26% | |
| **64.041912** Footwear with outer soles of rubber or plastics, and uppers of textile materials: ballet shoes, with blocked toes | Free | | | |
| **64.041915** Footwear with outer soles of rubber or plastics, and upper of textile materials: other ballet shoes | 30% | | 26% | |
| **64.041990** Footwear with outer soles of rubber or plastics and uppers of textile materials: other | 30% or R5 per pair | 30% | 26% | |
| **64.042010** Footwear with outer soles of leather or composition leather and uppers of textile materials: bedroom slippers | 30% | | 26% | |
| **64.042020** Footwear with outer soles of leather or composition leather and uppers of textile materials: ballet shoes, with blocked toes | Free | | | |
| **64.042030** Footwear with outer soles of leather or composition leather and uppers of textile materials: other ballet shoes | 30% | | 26% | |
| **64.042090** Footwear with outer soles of leather or composition leather and uppers of textile materials: other | 30% or R5 per pair | 30% | 26% | |
| **64.051035** Other footwear with uppers of leather or composition leather: ballet shoes with blocked toes | Free | | | |
| **64.051090** Other footwear with uppers of leather or composition leather: other | 30% | | 26% | |
| **64.052010** Other footwear with uppers of textile materials: bedroom slippers | 30% | | 26% | |
| **64.052015** Other footwear with uppers of textile materials: ballet shoes, with | Free | | | |

| | | | | |
|---|---|---|---|---|
| blocked toes | | | | |
| **64.052017** Other footwear with uppers of textile materials: other ballet shoes | 30% | | 26% | |
| **64.052090** Other footwear with uppers of textile materials: other | 30% or R5 per pair | 30% | 26% | |
| **64.059010** Other footwear: bedroom slippers | 30% | | 26% | |
| **64.059015** Other footwear: ballet shoes, with blocked toes | Free | | | |
| **64.059017** Other footwear: other ballet shoes | 30% | | 26% | |
| **64.059090** Other footwear: other | 30% or R5 per pair | 30% | 26% | |
| **64.061010** Half-pairs, mounted on dummy lasts of wood or unmounted, suitable for use as manufacturing models | Free | | | |
| **64.061015** Protective metal toe caps | Free | | | |
| **64.061025** Parts of footwear: Other Parts, of Iron or steel | 20% | | 13% | |
| **64.061035** Uppers and parts therof (excluding stiffeners): other, of textile materials rubber or plastics | 30% | 20% | 25% | |
| **64.061090** Uppers and parts of footwear (excluding stiffeners): other | 20% | 20% | 18% | |
| **64.0620** Outer soles and heels, of rubber or plastics | 20% | 20% | 15% | |
| **64.069105** Parts of footwear of wood: Soles, heel & sole units, tips, heels, stiffeners, arch supports & heel socks | Free | | | |
| **64.069140** Other parts of footwear of wood: removable fittings | 20% | | 13% | |
| **64.069190** Other parts of footwear of wood: other | 20% | 20% | 15% | |
| **64.069910** Gaiters, leggings and similar articles, and parts thereof, wholly or principally of leather or composition leather | 20% | 20% | 14% | 25% |
| **64.069915** Gaiters, leggings and similar articles, and parts thereof (excluding those wholly or principally of leather or composition leather) | 20% | | 13% | |
| **64.069925** Clog soles & heel and sole units, tips & heels of cork | Free | | | |
| **64.069940** Parts of iron, steel, copper or aluminium, for footwear | 20% | | 13% | |
| **64.069950** Other stiffeners, arch supports and heel socks for footwear of other materials | Free | | | |
| **64.069960** Parts of other removable fittings for footwear of other materials | 20% | | 13% | |
| **64.069990** Other parts of footwear of other materials: other | 20% | 20% | 15% | |

(Adapted from CSS & Cargo Info Africa http://www.rapidttp.co.za/tariff/index.html, downloaded on 25 April 2001)

## 8.5 Methodology

There were four different aspects to data collection in this report:

1. Survey of secondary data & information
2. Interviews of key stakeholders, employer and employee organisations
3. Short fax questionnaire sent to firms
4. Firm visits and interviews

**Survey of secondary data:** There is already some data on parts of the leather industry. For example SAFLIA collects data on its members and compiles them in its monthly 'Footstats' releases. Another source of data is the Bargaining Council which collects some basic information on the firms registered at the council.

**Stakeholder interviews:** Interviews of key stakeholders, employer and employee organisations and industry analysis was undertaken in order to gain the input of some of those representing the industry. In most cases, notes from interviews were sent to the interviewees so that the notes can be verified, corrected and added to.

**Table 31: Interviews with stakeholders, industry representatives and analysts**

| Date | Individual | Organisation |
|---|---|---|
| 14 Dec 2000* | Len Smart | Secretary General of the Clothing Manufacturers Association |
| 16 Jan 2001* | Tony Mossop | Skins Hides and Leather Council |
| 1 Feb 2001* | Fred Davidson | Association of S.A. Manfs of Luggage, Handbag & Gen. Goods |
| 27 Feb 2001 | Tim Taylor | Consultant |
| Apr 2001 | Ralph Powells | National Bargaining Council of the Leather Industry of South Africa |
| 5 Apr 2001 | Martin Paulsen | National Union of Leather and Allied Workers |
| 7 Apr 2001 | Der-Anne Dods | South African Footwear and Leather Industries Association |
| 12 Apr 2001* | Clive Jackson-Moss | International School of Tanning Technology |
| 20 Apr 2001 | Mark Oosthuisen | South African Tanners Employers Association |

* = telephonic interviews

**Fax questionnaire:** The purpose of the fax questionnaire was essentially to fill in some of the gaps in statistical data. Footwear was not targeted as there is already a body of data on this sector collected by the main employer association. However, there are no employer associations collecting data on tanneries, automotive upholstery cut and stitch operations and general goods manufacturers. A list of firms was complied from various sources including the Bargaining Council lists, the International Trade Centre website (which had a database of leather related firms in Africa),[3] the Yellow Pages, and from firms identified by other role-players in the industry.

Although there are some firms that are not on the Bargaining Council's lists, all firms are essentially 'formal businesses' which excludes the important informal section of the industry.

The design of the questionnaire (see sample questionnaires from p. 77) was intended to try and capture a few basic details about each firm. It was decided to try to keep the questionnaire two pages long in order to encourage as much participation as possible.

[3] See http://www.intracen.org/leather/

**Table 32: Questionnaires sent and completed**

| Category | Sent | Returned | % Returned per category | Number of firms *[4] | % of total no. of firms |
|---|---|---|---|---|---|
| Hide agent | 1 | 1 | 100.0 % | - | ? |
| Tanneries | 16 | 8 | 50.0 % | 20 | 35.0 % |
| Automotive cut & stitch | 7 | 4 | 57.1 % | ± 8 | 50.0 % |
| General goods | 60 | 24 | 40.0 % | 78 | 30.8 % |
| Furniture | 4 | 2 | 50.0 % | - | ? |
| **Total** | **88** | **38** | **44.3 %** | **106** | **33.9 %** |

As Table 32 shows, most of the data collected was for firms manufacturing general leather goods. This was deliberate as there is very little data available on the general goods sector. Note that the hide agent was sent a tannery questionnaire and returned it completed, explaining that no value adding took place at his business. Therefore, the reason why only one questionnaire was sent in this category is because hide agents were not specifically targeted.

Response to the questionnaire was generally positive, with some expressing appreciation for researchers taking interest in their industry. Questionnaire 2 was returned with a cover sheet that started as follows:

> Many thanks for your questionnaire. We are delighted to see some interest in our floundering industry. It is with great concern that we see our local competitors closing their doors after 20, 30 and sometimes 40 years.

Others even expressed annoyance that this kind of assessment has not been conducted on an annual basis. One ostrich leather goods manufacturer wrote in his cover sheet:

> I personally think this questionnaire would have been very useful, if carried out on a regular (yearly) basis. Five years after the previous assessment of the industry is actually a poor show by the authorities. I guarantee that the outcome will be that the industry is in a shambles and almost non-existent and cannot be compared to 1996.

It appears, then, that unlike some industries that have 'research fatigue', the leather industry is 'starved' of research and the opportunity to have input.

**Firm visits and interviews:** On site and telephonic interviews were conducted with a sample of the firms who had responded to the questionnaire. This was done in order to enabled more detailed discussions about specific issues facing firms. See Table 33 for a list of these discussions.

[4] The number of tanneries and general goods manufacturers comes from the National Bargaining Council of the Leather Industry of South Africa, while the Automotive cut and stitch category is based on the firms identified during the research process. It is not possible to identify the total number of leather agents or leather furniture firms based on this research.

**Table 33: Firm visits and interviews**

| Date | Firm | Product | Location |
|---|---|---|---|
| 24 Jan 2001* | Vermont leathercraft | General goods | Doornfontien, Jhb |
| 29 Jan 2001* | Indlex (closed) | Ostrich general goods | Cape Town |
| 1 Feb 2001 * | Edendale (closed) | Vegetable tanned leather | Pietermaritzburg |
| 15 Mar 2001* | K-West leatherworks | General goods | Gardenview, Jhb |
| 15 Mar 2001* | Ross Gun Leather | General goods | Fishoek |
| 3 Apr 2001 | Aunde Cartrim | Stitched auto upholstery | Durban |
| 9 Apr 2001 | Midlands Trim | Stitched auto upholstery | Pinetown |
| 11 Apr 2001 | Gringos | Re-tanned leather for the footwear industry | Port Shepstone |
| 17 Apr 2001 | AHT | Wet blues, various skins and hides | Port Elizabeth |
| 18 Apr 2001 | Proglove | Protective clothing | King Williamstown |
| 18 Apr 2001 | Industrial leather | Re-tanned leather for industrial protective clthng | King Williamstown |
| 19 Apr 2001 | Woods Tanning | Tanned ostrich leather | Uitenhage |

* = telephonic interview

## 8.6 Sample questionnaire for leather products manufacturers

**University of Natal Study on the Leather Industry conducted on behalf of the Department of Trade and Industry: *For any leather manufacturer or leather products manufacturer.* January 2001**

*Name of your company:* _____*; Province:* _____

*Contact name within company:* _____*; Title:*_____*; Position:* _____

*Email:*_____

### *Products Manufactured*

1. Please indicate the kinds of products you manufacture. (Tick box to right of option. Tick more than one if appropriate)

| | | |
|---|---|---|
| Leather manufacturers (Tanneries) | Raw hides & skins, salted, pickled | |
| | Wet blue | |
| | Finished leather | |
| Leather goods Manufacturers | Automotive (car seats, steering wheel covers, gear lever covers, etc) | |
| | Garments (Jackets, skirts, pants, hats, etc) | |
| | General leather goods (wallets, filo-faxes, handbags, luggage, belts, accessories, etc) | |
| | Sports goods (balls, gloves, saddlery, etc) | |
| | Footwear (shoes, shoe components) | |
| | Furniture (Leather lounge suites, upholstery, etc) | |
| | Other; specify: | |

2. What kinds of leather/skins do you produce or use?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Bovine | | Sheep | | Ostrich | | Reptile | |
| Game | | Other; Specify: | | | | | |

3. Do you also manufacture products with **no** leather content?

| | | | |
|---|---|---|---|
| Yes | | No | |

(If no, go to question 6)

4. If yes to question 3, please estimate the percentage of the total number of goods you produce that **do not** have leather content _____ %

5. Has the proportion of goods you manufacture with **no** leather content changed over the last 5 years (since 1996)?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

### *Number of Employees*

6. How many people are employed at your firm at present (January 2001)? _____

7. Have your employment levels increased or decreased since 1996?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

Please explain reasons for declines or increases in the number of employees:

_____

_____

_____

### *Turnover*

8a. If you are able to supply your exact turnover for 2000, it would be greatly appreciated: R_____

8b. If you are not able to supply your exact turnover for 2000, could you indicate the category in which it falls?

| | |
|---|---|
| Less than R 5 million | |
| 5-10 million | |
| 10-20 million | |
| 20-50 million | |
| Above 50 million | |

9. Roughly what was your actual production in 2000 as a percentage of your capacity? _____

## *Ownership*

10. Please indicate the ownership status of your factory:

| | | | |
|---|---|---|---|
| Subsidiary of Domestic Company | | Owner-Managed (Proprietor or Partnership) | |
| Subsidiary of Foreign Company | | Joint Venture with Foreign Firm | |
| Independent: Ltd or Private Company | | Other; Specify: | |

11. Are you currently hoping to increase foreign investment in your firm? (Not applicable to subsidiaries of foreign companies)

| | | | | | |
|---|---|---|---|---|---|
| Yes | | No | | NA | |

## *Inputs: Local/foreign raw materials*

12. How much of your raw leather was imported in 2000? (Please estimate the cost of imported raw leather materials as a percentage of total expenditure on leather inputs). _____%

13. Has the proportion of imported raw leather changed since 1996?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

## *Outputs: Local/foreign markets*

14. What is the estimated value of all products you export (leather and non-leather) as a percentage of turnover (all sales) for the year 2000? _____%

15. Has the proportion of products you export changed since 1996?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

## *General Comments*

Please indicate the main barriers or difficulties your business is currently facing or has recently encountered (e.g. raw material supply, skills shortages, competition from imports, etc).

_____

_____

_____

_____

What strategic changes has your business undergone in order to exploit new opportunities or overcome barriers (e.g. switch from manufacturing to wholesale, switch from leather to synthetic, manufacturing new products, increasing exports, etc)?

_____

_____

_____

_____

## 8.7 Sample questionnaire for tanneries

**University of Natal Study on the Leather Industry conducted on behalf of the Department of Trade and Industry: *Questionnaire for Tanneries.* January 2001**

*Name of your company: _____; Province: _____*

*Contact name within company: _____; Title:_____; Position: _____*

*Email:_____*

### *Products Manufactured*

1. What kinds of leather/skins do you produce?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Bovine | | Sheep | | Ostrich | | Reptile | |
| Game | | Other; Specify: | | | | | |

2. Please indicate the kinds of products you manufacture for sale. (Tick more than one if appropriate)

| | |
|---|---|
| Raw hides & skins, salted, pickled | |
| Wet blue | |
| Finished leather | |
| Other, Specify: | |

3. Does your factory also manufacture leather goods and products?

| | | | |
|---|---|---|---|
| Yes | | No | |

If n

4. If yes to question 3, please indicate which kinds of products are made in your factory.

| | |
|---|---|
| Automotive (car seats, steering wheel covers, gear lever covers, etc) | |
| Garments (Jackets, skirts, pants, hats, etc) | |
| General leather goods (wallets, filo-faxes, handbags, luggage, belts, accessories, etc) | |
| Sports goods (balls, gloves, saddlery, etc) | |
| Footwear (shoes, shoe components) | |
| Furniture (Leather lounge suites, upholstery, etc) | |
| Other; specify: | |

### *Number of Employees*

5. How many people are employed at your firm at present (January 2001)? _____

6. Have your employment levels increased or decreased since 1996?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

Please explain reasons for declines or increases in the number of employees:

_____

_____

_____

### *Turnover*

7a. If you are able to supply your exact turnover for 2000, it would be greatly appreciated: R_____

7b. If you are not able to supply your exact turnover for 2000, could you indicate the category in which it falls?

| | |
|---|---|
| Less than R 5 million | |
| 5-10 million | |
| 10-20 million | |
| 20-50 million | |
| Above 50 million | |

8. Roughly what was your actual production in 2000 as a percentage of your capacity? _____

## *Ownership*

9. Please indicate the ownership status of your factory:

| | | | |
|---|---|---|---|
| Subsidiary of Domestic Company | | Owner-Managed (Proprietor or Partnership) | |
| Subsidiary of Foreign Company | | Joint Venture with Foreign Firm | |
| Independent: Ltd or Private Company | | Other; Specify: | |

10. Are you currently hoping to increase foreign investment in your firm? (Not applicable to subsidiaries of foreign companies)

| | | | | | |
|---|---|---|---|---|---|
| Yes | | No | | NA | |

## *Inputs: Local/foreign raw materials*

11. How much of your raw hide was imported in 2000? (Please estimate the cost of imported raw leather materials as a percentage o expenditure on hide inputs). _____%

12. Has the proportion of imported raw hides changed since 1996?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

## *Outputs & markets*

13. What kinds of manufacturers buy your leather?

| | |
|---|---|
| Automotive (car seats, steering wheel covers, gear lever covers, etc) | |
| Garments (Jackets, skirts, pants, hats, etc) | |
| General leather goods (wallets, filo-faxes, handbags, luggage, belts, accessories, etc) | |
| Sports goods (balls, gloves, saddlery, etc) | |
| Footwear (shoes, shoe components) | |
| Furniture (Leather lounge suites, upholstery, etc) | |
| Other; specify: | |

14. What is the estimated value of all leather you export as a percentage of turnover (all sales) for the year 2000? _____%

15. Has the proportion of products you export changed since 1996?

| | | | | | |
|---|---|---|---|---|---|
| Increased | | Decreased | | Stagnant | |

## *General Comments*

Please indicate the main barriers or difficulties your business is currently facing or has recently encountered (e.g. raw material supply, skills shortages, competition from imports, etc).

_____

_____

_____

What strategic changes has your business undergone in order to exploit new opportunities or overcome barriers (e.g. switch to more lucrative products, increasing exports, etc)?

_____

_____