



ANNUAL ECONOMIC REPORT 2018

UNIC 
ITALIAN TANNERIES

General overview

The Italian tanning industry closed 2018 with a production of **128 million square meters of finished leather and 10 thousand tons of sole leather**, for a total value of approximately **4.9 billion Euro** (Fig.1). Compared to the previous year, the trend was overall not very bright, with a downturn equal to -3.2% in the total value and -0.9% in square meters produced (-8.1% sole leather).

After a positive 2017, fluctuations in the sectors' economic fundamentals for 2018 generally show a negative sign, even if the decline looks overall limited. After a positive start of the year in fact, the demand has progressively cooled down, because of the more and more marked uncertainties shown by the main sectors of destination, footwear above all, both on the domestic market and the international context. Therefore, also in 2018, the gap performance between values and volumes looks clear, de-

termined by the fall in the average selling prices, which look affected from critical issues related to the average purchase cost of raw materials.

From a structural level, the industry currently counts **1,201 active companies** and **17,698 employees**. It emerges a substantial stability in the comparison with the previous year, with a limited loss in the number of companies (-1%, equal to -12 production units) and substantially stable employment (-0.3%).

Production

The analysis of the main segments of the national tanning production, a quite differentiated trend comes out. The detail related to the **animal typologies** (Fig.2), highlights how much the negative panorama of the sector is linked to considerable losses in the small skins in particular, goatskins above all, whose productive drops have been only partial-

Italian tanning industry 2018






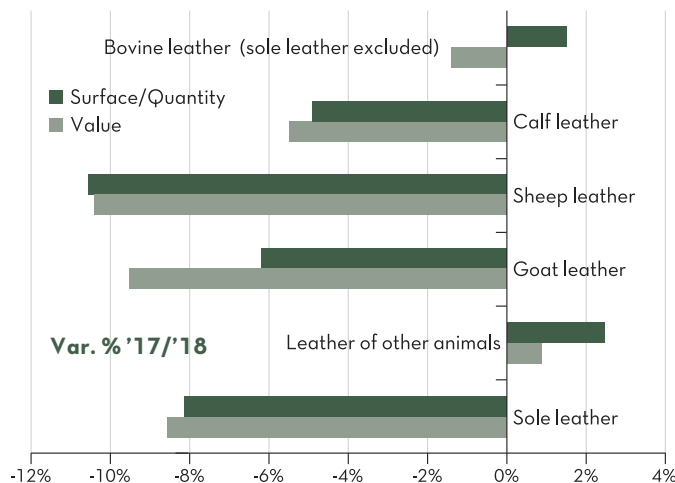
Companies	1,201 (-1.0%)		
Employees	17,698 (-0.3%)		
Volume	128 million square metres finished leather (-0.9%)	10 thousand tons sole leather (-8.1%)	
Production value	4.9 billion euros (-3.2%)		
Export	3.6 billion euros (-4.8%)		

Fig. 1 Italian tanning production

	2018		Var. % '17/'18	
	Volume	Value (million euros)	Volume	Value
Tanning production (volume in '000 sqm)	127,746	4,780	-0.9%	-3.1%
Sole leather (volume in tons)	10,056	119	-8.1%	-8.6%
Total production		4,899		-3.2%
Total export		3,639		-4.8%
Apparent share export/production		74%		

Fig. 2 Production per animal typology

	2018	
	Volume (000 000 sqm)	Value (million euros)
Bovine Leather	95.5	3,464.7
Calf Leather	9.6	494,1
Sheep Leather	11.1	360,1
Goat Leather	10.9	340,3
Leather of other animals	0.6	120,4
SUBTOTAL	127,7	4,779.5
Sole leather (tonn.)	10,056	119.4
TOTAL		4,899.0



ly offset by the positive trend in bovine skins (excluding calves, which look in decrease even if less than the sheep and goat segment) and the residual category "others animals "(reptiles, deer, kangaroos, pigs, etc.), which has less than 1% share of total production. Automotive, one of the most important **destinations of use** (Fig.3), was the only sector, which recorded a productive momentum, with a double-digit increase in the volumes of absorbed leather, which led it to overcome furnishing in terms of incidence, taking it to the third place on the podium of the client sectors; substantially stable the square meters destined to leather goods, the only other positive client segment.

On the contrary, the contraction of the volumes destined to footwear, whose share is at the lowest level ever recorded, and upholstered furniture, which has lost almost 40% in the last decade, continues. Even leather apparel and other destinations show

a decline, which however turns out to be less significant in terms of volumes since their limited shares among the client sectors. Performance by **price range** (Fig.3) does not show significant changes compared to the previous year in terms of quotas: the uncertainty appears to be widespread also to the highest segments of the market, which nevertheless register minor downturns.

Cost structure

In 2018, the **structure of operating costs** of the Italian tanneries reflected the general trend of economic fundamentals. The raw material (raw hides and skins and semi-finished leather), whose purchases have decreased (-12%) due to the decline in production, accounts for 50%, followed by cost of services (23%), chemicals and labor costs (13% for both). The decrease in operating costs, determined by the lower incidence of raw material purchases,

Fig. 3 **Production per destination use and price range**

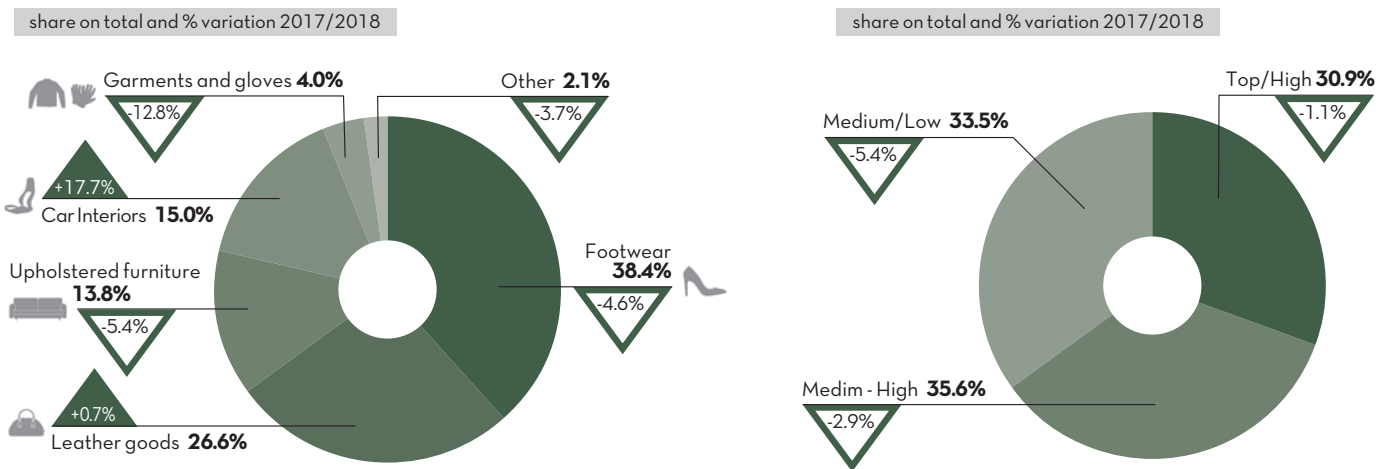
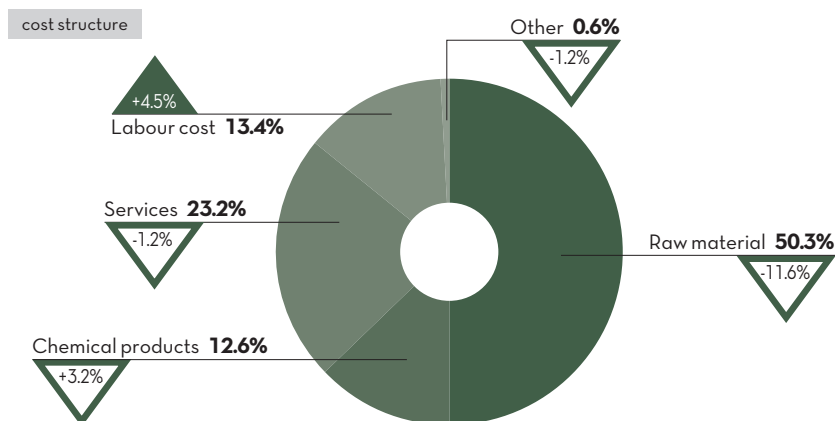


Fig. 4 **Income statement of Italian tanning industry**



has been partly offset by an increase in financial charges, with a net effect in terms of marginal recovery of profitability.

Regional data

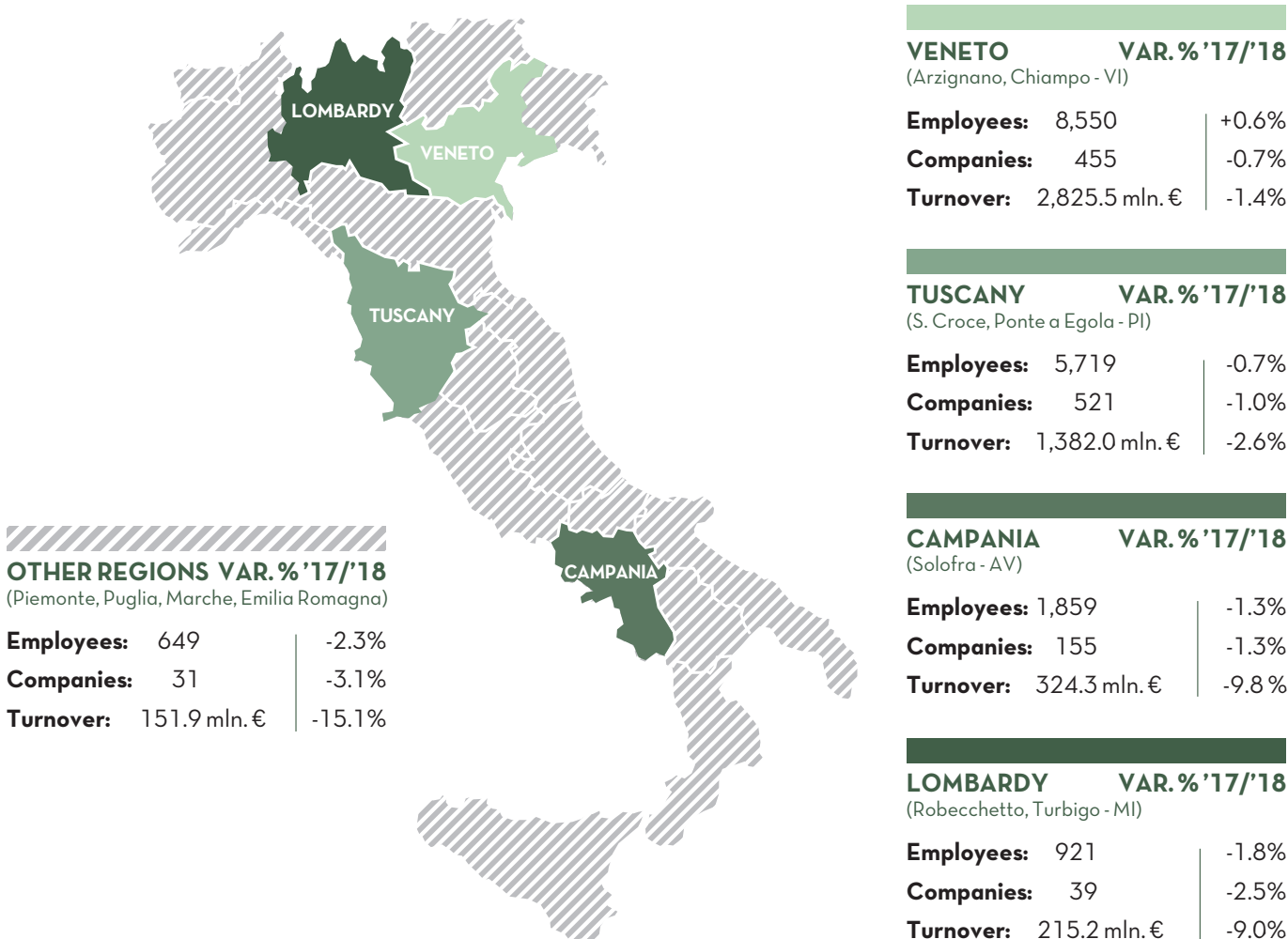
The Italian tannery is considered an excellence worldwide and an example of the district model for industrial development, typical of our Country.

In 2018, the four main regional districts (Fig.5) accounted for 97% of the national tanning industry turnover.

The **Veneto district**, which locates in the province of Vicenza and is specialized in large bovine leather for car interiors, footwear, leather goods and furniture, has grown in importance, by confirming its record in terms of production (58% of the total Italian value), export and number of employees. The second largest area, located in **Tuscany** in the province of Pisa and mainly produces medium-sized cal-

ves and bovine leather for fashion brands, is stable with an incidence of 28% on the total production value. The third regional area, located in **Campania**, represents the main reference for the processing of sheep and goat leather in Italy, destined to leather goods, footwear and apparel; and currently it is worth 7% of the national tanning production. In the **Lombardy area** finally, the fourth smaller district is in the Magentino area of Milan. It accounts for 4% of the national tanning industry turnover and it mainly specialized in the sheep and goat sector too. Following the market dynamics emerged during the last year, the Venetian production is the one that showed greater resistance in a context of generalized difficulty, with only a slight decrease (-1.4%). Once again, this result is related to the automotive sector, which keeps on expanding compared to the other destinations. On the other hand, the most significant losses were recor-

Fig. 5 Regional data



ded in Campania and in Lombardy, as a result of the bearish dynamic of the sheep and goat leather segment. Little drops also in Tuscany.

Italy's share in the world

The negative economic overview in 2018 heavily hit also all the other main global players in the tanning industry; for this reason, Italy despite this context has increased its **international quota** (Figure 6). This leadership role, which has been based for decades on product quality, process efficiency, development technology, commitment to sustainability, style and creativity, is incontrovertibly witnessed from the analysis of the impact on the absolute values. Despite having to deal with aggressive non-EU competitors (such as India, Brazil, Argentina, Russia, Nigeria ...), who benefit of an undue advantage on international markets thanks to protectionism measures on their own raw material and the

lower cost on environmental and social commitments, Italian tanners are the **first in the world rankings of the major leather producers**, with a share in value that has reached 22% of the global total (65% in the EU area), **and of the major exporters**, with an incidence of 28% of the finished leather exported worldwide. The predominantly commercial weight at international level can also be found in raw material purchases (raw hides and semi-finished leather): 23% of international shipments are destined to Italy.

Sourcing markets

The main raw material in the sector are raw hides and semi-finished leather wet-blue and crust. Since the raw material (raw hides and skins) is a by-product of the food industry, the raw material **offer is rigid** and this aspect, which has also some tricky commercial consequences (protectionism, prices'

Fig. 6 International leadership (value in USD)



Fig. 7 Tanning raw material*

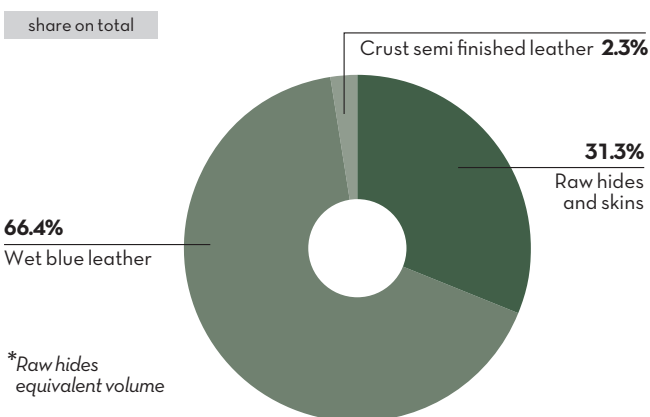
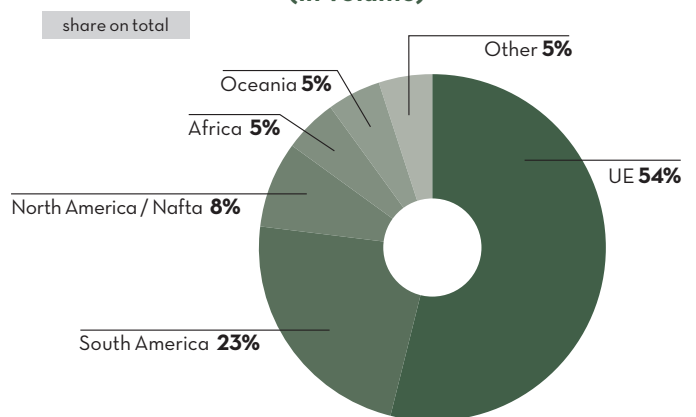


Fig. 8 Macroareas of import (in volume)



volatility etc.), makes the sourcing policies a crucial strategic factor in the Italian tanneries' management.

In this context, the mix in the sectoral shopping basket appears evolving constantly, both in relation to the countries of origin and to the type of raw material related the tanning process. During last year, the Italian industry has used semi-finished wet-blue leather for over 66% of total finished leather production and raw hides and skins for 31% (crust leather for the last 2% of the total - Fig.7), while on the geographical side, it has purchased 95% of raw materials from abroad, in line with the past few years and in connection with the limited number of national livestock available.

Imports

In 2018 Italian tanneries imported approximately **837 thousand tons of raw hides and semi-finished**

leather from 122 countries, substantially stable compared to the previous year. In detail, Italy purchased from abroad 415 thousand tons of raw hides and skins, 412 thousand tons of wet-blue leather and 10 thousand tons of crust leather. Considering the **Country of origin** (Fig.8), the European area, slightly up in 2018, confirms as the main supplier for the sector, with a share equal to 54% of the total import. Followed, in order of importance, by South America (+1%) with a share of 23%, the Nafta area, slightly down, with a share of 8%, Africa/Middle East, which account for 5% (slightly declining compared to the previous year) and Oceania (increasing).

Raw hides and skins availability

Slaughtering of **adult cattle** (Fig.9) raised by 4% globally compared with the previous year.

In detail, EU went up by 2%, the most important

Fig . 9 Raw material availability (slaughtering) var. % '17/'18

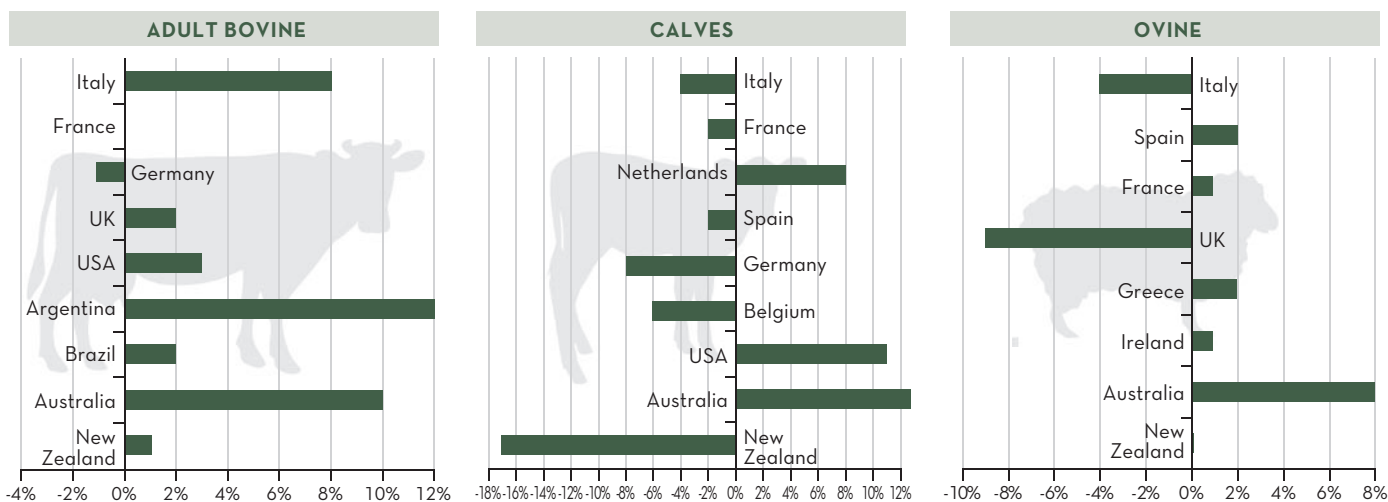


Fig . 10 Macroareas of export

	2018		Var. % '17/'18	
	Value (million euros)	Volume (Thousand tons)	Value	Volume
UE 28	1,831.5	86.9	-6.6%	-7.4%
- of which UE 15 (historical members)	1,082.9	52.8	-6.7%	-4.6%
Russian Area and Balkans	306.1	14.6	+13.1%	+11.8%
Far East	885.0	149.1	-9.5%	-17.2%
Nafta	276.9	10.6	-6.2%	+3.8%
Other	339.4	27.6	+7.1%	+27.7%
TOTAL	3,639.0	288.8	-4.8%	-9.4%

American sourcing countries grew (USA +3%, Brazil +2%, Argentina +12%), Australia and New Zealand registered a +10% increase and a +1% respectively. Another setback, on the other hand, for calves, with slaughtering overall down by 3% (mainly because of the drops in Germany, Poland, France and Italy); slight increase for sheep (+1%).

Export markets

Despite the downward trend hitting exports, the international markets confirmed to be of primary importance for the Italian tanneries, whose 74% of total turnover comes from foreign sales. **122 countries** were reached from Italian tanned leather shipments, which have registered a total value of **3.6 billion euro** in 2018, **down by 4.8%** compared to the previous year. The analysis by geographical **macro areas of destination** (Fig.10) shows the EU counting for 50% of the total export, followed by

the Far East (24%), North America (7%) and the Russian-Balkan area (8%). Focusing on the **individual Countries** of destination of Italian tanned leather (Fig.11), the picture looks very much variegated and still sees at the top of the rankings the Chinese area, which has been the first customer for over 20 years although with a considerable downturn last year (-19%). Declining trend also for Romania (-8%), USA (-9%), Germany (-5%), Spain (-3%), Portugal (-6%), Poland (-17%), United Kingdom (-21%), South Korea (-15%). On the other hand, widespread increases were reported for exports towards France (+5%), Vietnam (+5%), Tunisia (+12%), Albania (+8%), Serbia (+32%), Czech Republic (+5%), India (+6%), Bulgaria (+1%), Slovenia (+11%).

Fig. 11 **Export of tanned leather for main destination countries**

	Value 2018 (million euros)	Var.% '17/'18	Share
Romania	292.3	-8%	8.0%
France	264.5	5%	7.3%
Spain	236.5	-3%	6.5%
Hong Kong	234.6	-20%	6.4%
China	219.3	-15%	6.0%
USA	205.9	-9%	5.7%
Vietnam	198.8	5%	5.5%
Germany	181.1	-5%	5.0%
Portugal	158.4	-6%	4.4%
Poland	153.2	-17%	4.2%
Tunisia	124.8	12%	3.4%
Albania	108.4	8%	3.0%
Serbia	100.3	32%	2.8%
UK	86.8	-20%	2.4%
Czech Republic	61.9	5%	1.7%
South Korea	60.3	-15%	1.7%
India	57.9	6%	1.6%
Bulgaria	56.8	1%	1.6%
Hungary	51.4	-1%	1.4%
Slovenia	50.4	11%	1.4%
Other countries (102)	735.5	-4%	20.2%
TOTAL	3,639.0	-4.8%	100.0%

NOTE.

The export takes over the official ISTAT data for tanned leather of Chapters NC 41 and NC 43, excluding the values of such chapters not identifiable by quantity and type, estimated from ISTAT to be respectively equal to 14.0 and 1.4 million euros in 2018. Any pure marketing phenomena with the abroad (re-export of imported leather) or within the national borders (export of leather purchased from other regions, phenomenon that explains the inconsistencies between some regional data turnover and export) are included. Import analysis concerns the leathers of Chapter NC 41 exclusively

SOURCE: data processing and estimates by UNIC on a sectoral sample of FAO, ISTAT, EUROSTAT, UN-COMTRAЕ and National sectorial associations data



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