



Argentina – a new star on the horizon?

Argentina has had mixed fortunes over the past 50 years, having gone from what was arguably the best standard of living in Latin America to total economic freefall in 2001. In 2002, the government removed the peso from its parity with the US dollar, resulting in a substantial devaluation. Since then, the economy has been revolutionised. It still has a long way to go and bears no comparison with that of its larger neighbour Brazil. However, there are encouraging signs for the future of its leather-based industries.

The leathergoods industry recovers

During the economic upheavals of the 1990s the leather industry in Argentina took steps to improve itself technologically in order to compete in international markets. The benefits came with the renewed economic outlook posted in 2002. The leathergoods sector in particular took on a new lease of life and its trade balance moved into surplus.

With a strengthening domestic market, plus tourism and exports, the sector is working hard to regain its former position. Approximately 400 companies in total are involved, with most being

small- or medium-sized. The target is the middle class consumer and is based on quality, design, workmanship and price point. Only about 20 companies employing around 5,000 people are exporters. Top quality, internationally recognised raw materials are used and success is being achieved through a concerted push in design and quality.

Leather production chain exports 2004*

Category	Share
Crust leather	40.5%
Finished leather	31.8%
Upholstery Leather	16.9%
Leathergoods, clothing, etc	9.4%
Footwear	1.5%

**Exports of raw, wet-salted and pickled hides from Argentina have been banned since 1972.
Source: CICA, CIC, CIMA and INDEC*

Driving forward

After exhibiting at various international fairs in recent years, the leathergoods industry is confident its competitive advantages will help it to conquer new markets and international sales grew by 10% in 2004. It offers Argentina's acclaimed leather with added value through innovative design based

on world fashion trends and high standards of craftsmanship. At the same time, a revitalised labour force is combining the country's traditional craft abilities with the European influence introduced by immigrants during the 19th century.

Costs

This is quite interesting and figures from a 2003 survey show the sort of cost factors under which Argentina's leathergoods and footwear manufacturers operate.

Component	Share
Industrial components	50%
(of which finished leather)	40%
Non-industrial components	16%
Imported components	5%
Indirect taxes	9%
Labour	20%

Source: CEP Fundación Export Ar/CIMA

Asian imports

Despite recent successes, the industry still suffers from cheap imports. In the 1990s, the leather luggage industry was annihilated by imports from China and other Asian countries, but it is now ►

WORLD FOOTWEAR

recovering by producing articles for the top end of the market.

Domestically, sales are slow due the fact that 40% of the country's population still lives below the poverty line. Footwear manufacturers face the same situation.

Despite these problems, Argentina's leather production chain is seen as having an excellent opportunity for expansion both locally and internationally that should allow a substantial increase in added value to its products. This view is based on the following points:

- The international leathersgoods market is growing steadily
- Argentine leather has a good international reputation
- The local tanning industry is technologically sophisticated
- There is excellent design and some successful experiences with innovative products
- The sector has great potential as a job generator
- There is the possibility to increase added value without significant capital demands

There is clearly a long way to go, but having a large, high quality source of raw material on the doorstep is an enormous plus factor. The progress that has taken place since 2002 is quite remarkable and if it continues at this pace, who knows what the future may bring?

Restrictions on footwear imports

In an effort to support domestic manufacturers in what is still a relatively weak sector of the leather industry, the government applied two sets of import restrictions during 2005. In June, the Central Bank of Argentina began demanding instant payment on many imports including footwear. In July, the government suspended a so-called 'automatic licensing system' to slow down import procedures, which can now take up to a month to be processed compared with 10 days as was previously the case. The authorities have openly stated these measures seek to restrict imports of Chinese footwear, however, they have also hit Brazil.

The Brazilian Association of Footwear Manufacturers (Abicalçados) claims there was a goodwill agreement with Argentina,

Argentina's economy

GDP:

Purchasing power parity	\$483.5 billion
Real growth rate	8.3%
Per capita	\$12,400

Investment:

Gross fixed	18.3% of GDP
-------------	--------------

Inflation:	6.1%
-------------------	------

Budget:

Revenues	\$29.15 billion
Expenditure (inc. capital expenditure)	\$26.84 billion
NA Public debt	118% of GDP

Industry:

Growth rate	12%
Exports	\$33.78 billion f.o.b.
Imports	\$22.06 billion f.o.b.
External debt	\$157.7 billion

2004 estimates

to monitor Brazilian exports in 2005 so that they remained at 2004 levels, which had been agreed on the basis that Argentina would not implement non-automatic import licenses as protectionist barriers. In the first half of 2005, Brazil exported 5.07 million pairs of shoes to Argentina, up 2.9% on 2004, however, volume was expected to fall in the second half due to the strengthening real.

Tanners go for cleaner production

In view of the country's overall attitude to pollution and the environment, it is not surprising to find that the forward thinking Tanning Industry Chamber (CICA) and the local Environmental and Sustainable Development Department have signed an agreement to establish a Cleaner Production Programme for tanneries. Some of the largest tanneries in the country including Curtarsa, CIDECA, Sadesa, Antonio Esposito, Curtiembre Becas, Industrias Magromer Cueros Y Pielés and Curtiembre Arlei have joined the programme.

One of the main aims is to promote the competitiveness and productivity of the companies involved, helping them to evaluate environmental aspects as business strategies with special emphasis on prevention measures. The programme also shows how environmental and social benefits can be generated for the

community at large, the message being that preventing pollution can reduce costs and increase profitability. A decrease in the use of raw materials, water and energy, a reduction in emissions, effluent and solid waste discharge as well as a drop in exposure levels improves working conditions for employees and levels of health all round.

Major brands invest in Argentina

At the end of November, Argentine footwear producer Alpargatas announced that Nike had approved in principle its Tucumán and Catamarca factories for the manufacture of Nike shoes. Alpargatas is naturally delighted, as once quantities and styles have been finalised, this will mean a considerable increase in the use of the production capacity at the two factories.

In a further show of confidence for the future, Unisol, German sports brand Puma's licensee in Argentina, has invested \$3 million in a new factory in La Rioja Province, which will create up to 250 new jobs. The facility is said to include state-of-the-art machinery and equipment that will make it the most modern shoe factory in the country. 150 people are already working at the new facility and another 100 should be taken on during 2006.

Tough competition

Argentina faces a hard fight as regards Brazil. The latter is well-entrenched and has both good raw material supplies and a substantial leather industry infrastructure. Mexico in Central America has cheap labour and a close relationship with the USA. Both will be tough nuts to crack.

Argentina has a huge supply of top grade raw material and a tanning industry prepared to invest in the future. This is a tremendous foundation. It also has a government prepared to take positive action in support of a manufacturing industry that will create added value in terms of wealth and employment to this valuable resource.

If Argentina's leather industry can create a quality image and, at the same time, control its costs so as to offer value for money in the better price markets of the world, it will have a positive future. 