ISSUE NO. 3: SELECTED ISSUES OF TRADE AND DEVELOPMENT
IN THE HIDES, SKINS, LEATHER, LEATHER PRODUCTS AND FOOTWEAR SECTOR *

Prepared jointly by

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Note: The background to this paper is the UNCTAD report on International Trade in Hides, Skins, Leather and Leather Products and Footwear (January 1979).

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Selected Issues of Trade and Development in the Hides, Skins, Leather, Leather Products and Footwear Sector

Introduction

1. In order to formulate appropriate recommendations on problems confronting the sector under consideration, it is important to approach these problems both from the supply and demand for hides, skins, leather, leather products and footwear. From the point of view of the simultaneous approach of supply and demand, improving supply capabilities of developing countries must proceed along with increasing market access in developed as well as developing countries. The problem of increasing the supply capabilities is dealt with in Issue Paper No. 1. This paper will deal mainly with the problem of access to markets.

2. An examination of the pattern of international trade in leather, leather products and footwear reveals that the success of developing countries in expanding and establishing industries producing these products depends upon their access to export markets, in particular, to developed market-economy countries. The two important elements in market access are tariff and non-tariff barriers affecting international trade in this sector.

Tariff, tariff structure and escalation of tariffs according to stages of processing

3. In spite of important tariff reductions made in the post-war period, the level and structure of most favoured nation (MFN) tariffs still constitute an obstacle to the exports of manufactures from developing countries.

4. The data on tariff and tariff structure of developed market-economy countries are available in great detail. Because of the great variation in individual tariff headings and sub-headings within and between countries, for the purpose of comparison it is convenient to construct average rates of tariff in which individual rates are weighted by the value of items in the country's trade.

5. The tariff structure revealed in such a table for 1976 is a classic example of the well-known tendency for tariffs to escalate as the degree of processing or the manufacturing content of the product increases.
6. The raw materials of this sector, namely, raw hides and skins, entered almost duty free in all developed countries. In the case of semi-manufactures of the sector, leather, the weighted average rate of tariff was around 5 per cent in EEC countries and the United States, whereas the rate in Japan was a little over 10 per cent. Weighted average rates of tariff for finished leather goods and footwear varied between 8 and 16 per cent in EEC countries and the United States and between 13 and 18 per cent for Japan.

7. The tariff rates examined above refer to products, but the concept of protection applies to an industry. In considering the effective degrees of protection, it is necessary to take into account tariffs levied on the intermediate inputs consumed by the industry in addition to those levied on the principal products of the industry under consideration. The effective tariff rate is a measure of the excess remuneration of domestic factors of production made possible by the tariffs as a percentage of what value added would be in a free-trade situation.

8. The effective rate of protection, thus, depends in general on three factors: the cost structure of the industry, the nominal tariff on output and the difference between this rate and nominal tariffs on inputs. A calculation based upon the input-output structure and nominal tariff rates of outputs and inputs for the United States shows that the effective rate of protection for the tanning industry is more than two times as high as the nominal rate of tariff levied upon leather imports. Similarly, the effective rate of protection is 50 percent higher than the nominal rate levied on leather footwear.

9. Such an escalation of the effective rate of protection in developed countries has adversely affected developing countries in the location of processing plants. The elimination or further reduction of tariffs on finished and semi-finished products of the sector under consideration is essential in increasing the further processing of raw materials and to export them in the form of finished and semi-finished products.

Operations of the Generalized System of Preferences (GSP)

10. The Generalized System of Preferences (GSP) is a system of generalized, non-reciprocal, non-discriminatory preferences established by developed
countries in favour of developing countries. The broad objectives of
the system are to accelerate economic growth of developing countries
by promoting their industrialization through increased export earnings
in manufactures and semi-manufactures. The GSP consists of individual
schemes which vary from one country to another regarding product coverage,
depth of tariff cut, safeguard mechanisms and rules of origin.

11. Preference giving countries, however, insisted on the right to make
various kinds of exceptions on particular products. It is noteworthy that
leather, leather products and footwear figure prominently among products
subject to such exceptions. The incidence of such exceptions is very much
greater among the leather and leather products group than among manufactured
goods in general, and only among textiles and clothing and petroleum products
are such exceptions more frequent.

12. Examples of exception lists established by developed market-economy
countries include the following:

- The United States has placed leather footwear and a major
  portion of leather garments on its exception list.

- Japan has listed leather garments and prepared parts of footwear.

- The Nordic countries consider most types of leather, leather
  garments and accessories and leather footwear as "sensitive
  products" and have excluded them from preferential treatment.

- The EEC countries provide duty-free entry for product groups
  in the sector imported from developing countries, but with an
  upper limit to the value of the products admitted duty-free
  from any single supplier or from developing countries as a
  group in accordance with pre-established ceilings. The
tariff reverts to the MFN rate when such maximum yearly
import levels are exceeded.

13. Important exceptions in the coverage of products in the sector
under consideration and various limits and limitations in the application
of the Generalized System of Preferences together with strict rules of
origin applied to eligible products and the indeterminate duration of the
system have greatly diluted the effectiveness of the GSP for leather, leather
products and footwear sector.
Non-tariff barriers

14. Non-tariff barriers in international trade are now receiving increasing public attention for two main reasons. One is the increased visibility of non-tariff barriers due to the general reduction in tariffs. As was pointed out, "the lowering of tariffs has, in effect, been like draining a swamp. The lower water level has revealed all the snags and stumps of non-tariff barriers that still have to be cleared away ..." Tariff cuts as the result of the Multilateral Trade Negotiations will make this statement all the more relevant.

15. The other reason is the growing use of non-tariff measures by an increasing number of governments. Growing protectionism in recent years has been most conspicuous in non-tariff distortions that affect patterns of international trade.

16. Import quota (bilateral, global and unspecified) is the most frequently practiced non-tariff barriers to trade in hides, leather, leather products and footwear. Incidence of import quota, in particular, bilateral quota is very high in footwear. The next most frequent barrier observed is import licensing, in particular, discretionary licensing on all types of leather and less frequently in footwear. Health and sanitary regulations are still in use in raw hides and skins as well as in all types of leather. Unspecified restriction on imports of footwear from the East European countries is practiced in several developed market-economy countries. Another form of non-tariff barrier is countervailing duties often levied on travel goods and handbags as well as on leather apparel and accessories. The "voluntary" export restraint even though not numerous in the sector under consideration, has been more frequently used in the recent past in other manufacturing sectors.

17. In spite of its importance, information on the non-tariff barriers to trade in practice are difficult to obtain on a systematic basis and the data available is far from being complete.

18. There is, therefore, an urgent need to compile a comprehensive inventory of non-tariff barriers to trade - comparable to that available on tariffs - so that international organizations and others directly concerned with international trade and trade policy in hides, skins, leather and leather products and footwear may be in a position to measure and evaluate the effects of non-tariff distortions to international trade and to find measures to eliminate or reduce such distortions.

Export restrictions of raw materials and further processing of raw materials in developing countries

19. Recent developments in export restrictions or prohibition of exports in raw hides and skins by developing countries must be viewed in the context of their domestic agro-industrial policy to add value to the raw materials at source and to create employment and income at the rural level. Such policy necessitated various types of government support to aid the industry through its infant stages of development. On the other hand, export restrictions have curtailed the volume of raw hides and skins traded in the world market, thus contributing to the shortage already existing.

20. The central fact in the economics of hides and skins supply is that it is a by-product of the meat industry; it is virtually inelastic, a variable which cannot respond to demand. Thus, for example, the off-take rate of hides and skins in Argentina is directly related to the international market for meat. Most developed countries have restricted the import of meat for various domestic reasons, while they have also imposed quantitative restrictions on footwear and other leather products.

21. It would therefore appear that free trade in raw materials may be possible if developed countries are prepared to open up their markets for imports of meat and leather and leather products from developing countries. There must, in other words, be some kind of an incentive or a quid pro quo to permit international co-operation for a harmonious development of the hides, skins and derived products sector.
Growing protectionism and policies to reduce protectionist measures

22. The three decades since the end of the Second World War were marked by a high rate of economic growth accompanied by the rapid and continuous growth in international trade. Expanding economies allowed governments to move toward trade liberalization policies and a more liberal world trading system. More recently, however, particularly since 1974, as the economies of the developed countries have tended to stagnate, many countries have shifted away from the earlier liberal trade policy. As a result, protectionist measures which restrict and distort international trade have proliferated, thus becoming a cause for serious concern.

23. The main feature of the recent protectionist measures is the selective manner in which these measures are applied and administered. Their increasingly selective application and sector-specific nature render the net effect of protectionist measures especially serious on those developing countries which depend on a relatively small amount of trade in manufactures in a still narrow range of products.

24. Increase in exports of manufactures consisting mostly of labour-intensive products of low skill content has been one of the most important avenues of economic growth for many developing countries. Leather, leather products and footwear industry is one in which many developing countries enjoyed comparative advantage in international trade, in particular, in their exports to the developed market-economy countries. Furthermore, this is one sector in which developing countries have a relatively high share in world production and trade, but also in which developing countries have the potential to increase this share thereby contributing significantly toward achieving the Lima target for industrial production as a whole.

25. The Leather and Leather Products sector, however, is one of the major sectors to which sector specific protectionist measures have been applied along with textiles and clothing, iron and steel products, ships, and consumer electronic products. Footwear industry, one of the most important industries comprising the sector under consideration, has been the focal point of protectionist pressures in several developed countries and is currently receiving increasing policy attention.
26. A rapid increase in imports can cause significant losses of jobs and idling of production facilities in the importing country. And it is very hard for the labour and management directly affected to accept the burden of the whole process of import adjustment. The point, however, is that protectionist measures provide no real solution to the underlying structural problems of the protected industry. Furthermore, such defensive measures prevent parties involved from seeking in time long-lasting solutions. Therefore, not only the current employees but also the future employees in the leather and leather products industry are bound to a life of low wages under persistent threat of unemployment when in fact they could seek a much better alternative by shifting to more skill-intensive and high technology industries in which developed countries enjoy comparative advantage vis-à-vis developing countries.

27. Current adjustment programmes in many developed market-economy countries are inadequate in providing income and employment assistance to employees and employers affected by increasing imports, in particular, from developing countries. It is essential and urgent for developed countries to establish a positive and anticipatory adjustment policy that identifies industries or sectors which are not competitive against imports and deliberately encourages factors of production to move out in anticipation of the imminent need to deal with major problems of import competition.

28. In this context, the attention of the Second Consultation on Leather and Leather Products Industry is called to a pertinent resolution adopted at the Fifth Conference of UNCTAD in Manila in June 1979: "Protectionism and structural adjustment" (resolution 131(V), which in part reads as follows:

"Developed countries should facilitate the development of new policies and strengthening existing policies that would encourage domestic factors of production to move progressively from the lines of production which are less competitive internationally, especially where the long-term comparative advantage lies in favour of developing countries, thus providing larger export possibilities for the developing countries and contributing to the attainment of their development objectives. ..."

"The United Nations Conference on Trade and Development, calls for continued resistance to protectionist pressures and urges developed countries to implement fully and adhere strictly to the standstill provisions they have accepted, in particular concerning imports from developing countries;
calls on developed countries to move towards the reduction and elimination of quantitative restrictions and measures having similar effect, particularly in relation to products exported by the developing countries;

urges further the developed countries to continue efforts towards reducing tariff escalation so as to provide improved access to exports of manufactures and semi-manufactures, in particular from the developing countries, and to continue consultations on the subject in appropriate forums".
Suggested Points for Discussion

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1. What are the obstacles or opposition to free trade in hides, skins, leather and leather products?

2. The consumption of leather and leather products is linked to the standard of living. The consumers in the developed market-economy countries are the main target market of the worldwide industry. The question is to what extent are the developed market-economy countries' governments prepared to protect their consumers, for example, from the high-priced leather footwear produced by their domestic footwear industry when competitive imports from developing countries could be to the advantage of the consumer and also dampen the rising consumer price index? Where do the trade unions and consumer groups in the developed countries stand on this issue?

3. The effectiveness of the Generalized System of Preferences for leather, leather products and footwear sector have been greatly diluted by the important exceptions applied by preference-giving developed countries in the coverage of products, limitations in the application of the GSP, strict rules of origin applied to eligible products and the uncertain duration of the scheme. To what extent are the preference-giving developed countries prepared to improve the effectiveness of the present GSP scheme as far as leather and leather products are concerned?

4. To what extent are the developed countries prepared to contribute to the elimination of non-tariff barriers to trade in leather and leather products?
5. What type of reciprocal actions are the developing countries prepared to offer on raw material supply to the international market should developed countries be prepared to progressively eliminate tariff and non-tariff barriers to trade in finished and semi-finished leather and leather products from developing countries?

6. Current adjustment programmes in most developed market-economy countries are inadequate to provide income and employment assistance to employees and employers affected by competition from increasing imports of finished and semi-finished leather and leather products. What specific action should Government, management and labour take, for example, to rationalize production in developed countries taking into consideration the comparative advantage of imports and the changing pattern of international trade in order to encourage governments to adopt appropriate adjustment policies?