



Traceability and certification in the leather value chain

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Key Messages

✓ Although not mandatory, certifications include traceability within their scope as an important requirement.

✓ Despite the greater maturity of the foreign market, there are signs from Brazilian companies that this topic will become increasingly more important.

✓ The availability and transparency of information throughout the production chain needs to increase.

One of the most important products derived from cattle is leather. The leather industry is an extension of the meat industry. Tanneries transform the by-product “hide” into leather and other products that supply a great number of industrial sectors. Leather is used in the fashion industry to produce footwear, clothing, purses and other articles, in the furniture and auto industry, to produce upholstery, and in the safety equipment industry, and more. Leather scraps and shavings are a source of protein, which is used in the food and pharmaceutical industries, as well as for pet-related items. The fat is used in the production of hygiene products, cleaning supplies and biodiesel and other by-products and the residue is used to produce fertilizers or applied directly in agriculture. In short, the leather industry is highly pulverized and involved in the production of a great many end consumer products.

The leather sector in Brazil has 244 industrial plants belonging to 207 business groups, ranging from multinationals to family businesses. The sector employs about 30,000 workers and accounts for more than USD 2 billion each year (CICB, 2019).

The production of Brazilian tanneries is mostly concentrated on bovine leather. According to the data in the Study of the Leather Sector in

Brazil (CICB, 2019) and based on the meterage produced, 97.2% of hides are bovine, 1.4% are ovine, 1.1% are caprine and 0.3% derive from other sources. The data shows that 64.2% of the leather comes from large slaughterhouses or meatpacking plants, 27.4% is provided by third parties, 6.2% by dealers, 1.8% derives from municipal slaughterhouses, and 0.5% from other sources.

Brazil exports around 80% of its bovine hide. Exposure to deforestation is embedded in the supply chain. A Global Canopy assessment has identified 15 key companies based in Europe and the United States that could play an important role in reducing deforestation in the leather chain. They include large automobile manufacturers such as General Motors and Volkswagen, furniture retailers such as Ashley Furniture Industries and DFS, and footwear companies such as Adidas and Nike (MacFarquhar et al., 2019).

Italy is the second largest importer of Brazilian bovine leather after China. The product is the main raw material used by the Italian tanning industry, accounting for 71% of total production. The most important end-user markets for Italian leather are footwear (42%), leather goods (24%), furniture (16%), upholstery (11%) and clothing (5%).



Traceability and certifications

Traceability has become a daily issue for tanneries. More and more clients are requesting information concerning the origin of raw materials, mainly buyers from within the fashion industry and most often footwear manufacturers. Therefore, implementing a system of traceability is almost a sine qua non condition for the tanneries to maintain or expand their client base, not only in export markets (which are well-developed and more demanding), but also in local markets (which are gradually coming around to the idea).

Certification Systems, in turn, require traceability in their regulations, standards or protocols. The tanneries, therefore, view certification as an overall plus when it comes to fulfilling their needs. However, the different way that each System deals with traceability sometimes forces the tanneries to multiply their efforts in order to meet requirements.

All tanneries interviewed for this study are or have had Leather Working Group (LWG) certification. Most have or are implementing the Brazilian Leather Sustainability Certification Programme (CSCB) standard. With regard to

the Italian Institute of Quality Certification for the Leather Sector (ICEC), the interviewed tanneries seemed to lack a certain amount of knowledge about this entity.

It has become clear, therefore, that some tanneries are able to trace leather produced and delivered to clients all the way back to their direct supplier: tanneries that provide partially processed products (wet blue) or a meat processing plant that supplies the in natura hides. However, the exact source of the animals themselves can only be provided by tanneries that are linked to the beef processing industry.

All others regularly accept Statements or Terms of Commitment from suppliers stating that they have tracking systems in place and do not purchase from farms that have had problems with deforestation, child labour or slave-like labour or from embargoed areas.

As a rule, however, no systematic monitoring or audit system is used. Usually when a client requests specific information about the source of the leather, a request is sent to the supplier and this process is carried out “manually”.

Although required and important, the costs involved in the implementation and operation of traceability systems are a limiting factor. Any additional costs are absorbed by the tannery, since the client does not pay more for tracking. Additional requirements that increase the cost of tracking systems is seen as a factor that may adversely affect the leather sector in Brazil.

The main difficulties

Within the scope of the Beef on Track Program, specialists analysed the challenges involved in implementing traceability. The analysts divided the tanneries into three groups:

Group A

Vertically-integrated meat processing plants that have direct access to the cattle-breeding units and process hides in their own facilities or through third-parties. This group is composed of a few companies but accounts for a significant share of Brazilian leather production.



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Group B

Tanneries that work with raw materials obtained from meat processing plants or middlemen but have no direct access to the cattle-breeders. These tanneries may be small, medium or large and total around 80 companies.

Group C

Tanneries that purchase cured leather, acquired from either of the above groups or middlemen. These are mostly small and medium-size enterprises and total around 120 companies in Brazil.

The analysis revealed that when asked about the "main difficulty regarding the traceability of raw materials", a significant difference is perceived between the three tannery groups.

For Group A tanneries, the greatest difficulty lies with indirect suppliers; In other words, getting reliable and transparent data about the origin of the animals up to their birth. The tanneries of this Group made a point of mentioning the efforts that the companies have been making in this regard and stated that it will still take some time to gain access to this information, although some initiatives are currently being implemented.

The tannery representing Group B pointed out the "cultural difficulty of dealing with commercial issues with meat processors". This difficulty is greater with meat processing plants that work in the local market, given that tanneries that export are more structured and are used to disclosing information about the origin of their raw materials.

The tanneries of Group C stated that their main difficulty was "reaching the farm". This is because not all wet-blue tanneries have systematised traceability information. Since the system of these tanneries relies on the statements of their suppliers, the system bases itself more on trust than on information systems. There is also the issue of the origin of "picked" hides, i.e., those that do not come directly from the meat processing industry but are acquired from small meatpackers or slaughterhouses through middlemen. This raw material is still quite common, in particular for the production of fur-lined leather.

All the interviewees agreed that the transactional nature of trade relations within the sector was a problem. In other words, the price is what drives

the purchase and sale of leather especially when wet blue is involved since it is, after all, a commodity.

This runs contrary to the costs involved in implementing and operating traceability systems. These costs are ultimately borne by the tannery (regardless of the production stage) because the customer does not pay more for traceability. Nevertheless, all the interviewees considered traceability a premise that needs to be tackled, regardless of cost.

The tanneries mentioned the need to consider integrating the entire chain to fully improve traceability. Despite not being intense yet, customers' demands have been driving this process.

Recommendations

Two key critical points have been identified. The first, dependant entirely on the livestock and meat processing industries, is to implement the basic technology needed to ensure the identification of the origin of an animal from birth and then to be able to cross-reference this information with the areas of deforestation, embargoes and other legal conditions.

The second involves changing the business model: from transactional (price-based) to more relationship-based in trading processes within the productive chain, where details such as an



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BEEF ON TRACK

Beef on Track: The platform for transparency in the beef value chain.

The Beef on Track platform is a one-stop hub that provides access to systems, tools, data and technical information for a deforestation-free beef chain. A team of experts, supported by strategic local and international partners, works behind the scenes to develop solutions. It has two main aims: to support and boost the implementation of socio-environmental commitments. As such, producers, meatpackers of all sizes, tanneries, supermarket chains and also investors can use this environment to find the materials they need to implement the commitments. Of course the public in general can also use it as a source of data and resources to monitor the progress of the agreements undertaken by the chain.

Come in and get involved!

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exchange of information regarding traceability is valued. This may also lead to a fairer assessment of the raw material based on the knowledge of its origin and may contribute to higher quality hides. This is essential for the information to be traded transparently and so that integrated systems can be developed to ensure the accuracy of the data.

From that point on, certifications can play a vital role as a tangible instrument that guarantees the traceability of leather and will, therefore, drive the entire industry to find solutions to implementing a supply chain that is free from deforestation and conversion of native vegetation. Including traceability as a requirement for certification systems will be the end result of dealing with the challenges mentioned above.

Another important issue to consider and simultaneously deal with is to show markets the value of this information and how any added costs can be absorbed by all those involved in the supply chain. In addition, it is important to increase the understanding of the biomes within the context of legal cattle-breeding activities, in particular in the Amazon region.

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