

Taxation and Duties in the Worldwide Leather

Luis Sergio Nunes Costa¹, Fernando Bellese²

¹⁻ JBS S/A – São Paulo - SP – Brazil. Code: 05118-100 Phone: 55 11 3144-4187 e-mail:
luis.costa@jbs.com.br

Abstract

The market for the industrial goods and materials and for some commodities is very well followed for the local governments. Some countries usually use taxes and duties for regular the entrances and outputs of the materials. In on the leather business isn't different. Around the world the leather industry generate millions of jobs and the countries looking for some mechanism to maintain the adding value on their borders. There are taxes and duties applied to salted hides on the exportation, prohibition of exportation, duties on the entrance of crusts and finish leather. This study has the intention to show what countries use this kind of tool to order his internal market or even protecting his industries. The study also has the intention to show what materials are more affected for this kind of political. Indeed, some of these actions is achieving the original intention. The main idea is understand and show all this tools and discuss if the results give benefits to the international market. Also discuss what could be the acceptable protections and usual practices.

Key Words: taxation, duty, international market

1 Introduction

The flow of international business in the last centuries has become every time more intensive due to the growth of the global population and also the necessity of each country to reach an internal development to support better conditions and living standards to their people. For many centuries international trade was mainly free, controlled by merchants and dependent on the transport made by vessels through the seas. There were no specific rules.

With the intensification of international trade, some countries started establishing some rules to protect their agriculture and industries, controlling the way in and out of goods. Considering the importance of the leather industry for many countries around the world, it was also included in those practices in many places.

This article has for objective demonstrated what kind of barriers and taxes are imposed to this market, and what materials are more affected by this kind of policies. The main idea is to understand and show all these tools and discuss if the results bring considerable benefits to the international market. It will also try to discuss what could be acceptable protections and usual practices.

2 Global trade and commercial barriers

In 1947 global trade was facilitated by international rules determined in an agreement signed by 50 countries, known as GATT (General agreement on trade and tariffs). According

to its preamble, it was intended to achieve “substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis.”

GATT was signed in 1947 and lasted until 1994, when it was replaced by the WTO in 1995. These countries today represent 157 members the World Trade Organization.

The system is based on round negotiation between its members, covering issues related to tariffs and anti-dumping practices aiming at the reduction of a considerable number of taxes. The actual round started in Doha, in 2001 with periodic summits every year.

Still, there are substantial restrictions imposed by a great amount of countries. KIM (2010) shows us that:

“A number of trends concerning the use of export restrictions can be identified from a review of WTO TPR country reports. One observes, for example, that the percentage of countries applying export duties over the period 2003-2009 was higher than in previous years and that such duties were introduced primarily by developing and least developed countries; examples of items most subject to export duties were mineral and metal products, forestry, fishery and agricultural products, as well as those made from leather, hide and skin. It also becomes apparent that when compared to export duties, quantitative restrictions were more broadly used for social policy objectives, such as environmental protection or conservation of natural resources.” (KIM, 2010)

The table below illustrates what was explained by KIM (2010):

Trade Policy Review (WTO) Summary of current situation on export duties, by product (2003-2009)

Selected products	Number of WTO members applying export duties (based on 65 TPRs)
Forestry products	15
Fishery products	13
Mineral products, metals, precious stones	28
Leather, hides and skins	17
Agricultural products (sugar, coffee, etc)	36

TPR reports do not specify precise HS number of products subject to export duties. Therefore, this classification is based upon the description of the products in the reports. In this table, hides and skins have been grouped with leather rather than agricultural products. Products listed are not exhaustive;

Note that leather, hides and skins are one of the sectors which make more use of duties in the world.

3 Kind of barriers, mechanisms and the actors

What exactly does the term barriers means? Although there is no precise definition for trade barrier, this can be understood as any law, regulation, policy, measure or practice by governments to impose restrictions on foreign trade. There are two most common categories of barriers, which are:

- Tariff barriers: dealing in import tariffs, customs valuation and miscellaneous fees;
- Non-tariff barriers: dealing with quantitative restrictions, import licensing, customs procedures, Antidumping, Countervailing Measures, Subsidies, Safeguards and sanitary and phytosanitary measures.

Dumping on international trade is when a company exports a product to another country at a price lower than that prevailing in its domestic market, with the goal of eliminating competition, both from local producers, as other foreign producers. Antidumping measures are the actions taken to undo the damage suffered by an industry, as a result of imports at dumped prices.

Countervailing Measures are aimed at neutralizing the harmful effects to the domestic production of imports of subsidized products.

Subsidies are understood as the granting of subsidized benefits, depending on the following assumptions: there is, in the exporting country, any supporting form of income or price that directly or indirectly contributes to increasing exports or reducing imports of any product, or there is a financial contribution by a government or public body within the territory of a country.

Safeguards have the purpose of providing a temporary protection, enabling the sector affected by a substantial increase in imports, to adjust to new competitive conditions.

Beside tariff discussion on the political and governments level, the main actors of those practices are the companies and sector associations. They are directly affected on day by day profits when their products are not commercialized according to the reality of each industry.

Following Nogueira (2006) the companies are the most interested in participating more actively in international trade negotiations. The main vehicle to define and discuss are the governments but the industry associations, formed by businessmen, create the demand. So, the advantages as Nogueira (2006) are:

- To stay well informed and plan in advance how to react to new decisions by the WTO and their countries;
- To defend their industry against government decisions that may affect the national marketing, sales and earnings;
- To ensure that agreements cannot have different interpretations of the original intentions;
- To try to direct the discussion to the path that benefits companies, the industry, the country creating new markets or breaking down the barriers of international trade already.

KIM(2010) also explain us that there are different tools to apply subsidies to the industry, as reduction of VAT and the most extreme case of restrictions that is the total restriction ban on exports, the prohibition.

“Export license requirements establish that an application or other documentation should be submitted as a condition for exportation and depending on whether license acquisition is automatic, the requirements may affect the volume of exports.” (KIM, 2010)

4 Leather barriers

Some countries define the raw material and leather as a commodity, and apply as in other products, some export tariffs, fees or charges.

SAUER (2008) has a good explanation on this subject:

“Globalization has a positive and negative influence on the supply of hides. The positive one is the easier trade flow of raw material which suits tanners everywhere. In spite of the fact that there are still many restrictions at national level such as import and export quotas and bans, subsidies and taxes, more raw material can be internationally traded than before. Eventually, under continuous international political pressure the present restrictions will further diminish and may disappear all together.

Globalization also has a negative consequence. In the past one could buy hides and skins from a specific country, or region. One wanted that specific region because of the specific characteristics of its hides or skins. This ‘customized’ buying of raw material is disappearing and this quite often results in expensive disappointments for tanners.

In the European Union traders can import hides from wherever they want and sell them under the nationality of the country which finally exports the hides to a buyer somewhere else. Few can see the difference between the hides from the various countries at first sight. I wonder when we shall trade something as simple as European hides under a EU certificate of origin.”

We can observe many countries trying to protect their economy. The most recently news shows that are a lot of indication that we have not increased too much on free commerce.

“The Indonesian tanning Association Apki and the footwear Association Aprisindo are urging the government for the application of heavy export tariffs on raw hides, for the closure of the import of finished leather and for facilities for the import of raw hides in order to boost the country’s competitiveness. Indonesia is the third country in the world for the footwear export, increasing by 7% regarding 2011 due to the demand from the European and U.S. markets.” (Leather Insiders – newsletter 29th March, 2013)

“The European tanners association COTANCE, when analysing on the continental tanning industry’s situation during the Board of Directors in Bruxelles, has detected a positive picture regarding certain areas such as high furniture, luxury and automotive, while other destination of use, especially the furniture, are suffering a sharp decline in orders, to which must be added the problem of the access to raw materials and the dizzying prices of some selections. The tanners are accusing in particular European authorities, in their opinion not active enough in containing the negative effects of this lack of skin, the result of restrictions on exports by third countries and the imposition of duties, a situation well know to the authorities. The price is now at the highest levels of the decade, putting at risk hundreds of jobs in the industry across Europe, particularly in Italy.” (Leather Insiders – newsletter 22th February, 2013)

All tools are used by different countries as prohibition, taxation in many levels and percentages, applied to different stages of hides, more common in raw material and wet blue. Establish a minimum price to entrance on the country, requirement of licenses or some registration and also specific certifications as technical laboratories or sanitary reports. The table below summarizes the main barriers found on this market.

Export barriers on raw hides and semi-processed leathers - Main Countries

	Export ban	Duties	Licences/ Registration	Minimum price	Others (inspections, technical, excessive bureaucracy, etc.)
Argentina		15% (raw, wet blue)		x (raw, wet blue)	x
Bangladesh	x (raw)				
Belarus			x	x (raw)	x
Brazil		9% (raw, wet blue)		x (raw, wet blue)	
Burundi		3% (Raw hides and skins, leather)			
China		20% (some raw)	x		x
Egypt	x (raw)				
Ethiopia		150% (raw, wet blue, crust)			
India		60% (raw, wet blue, some crust)	x		
Indonesia		35% (raw), 25% (wet blue)			
Kazakhstan		20% (raw, min 200 €/Ton)			
Kenya		42% (raw)			
Morocco			x (raw, wet blue)		
Nigeria	x (raw)		x		
Pakistan		20% (raw, wet blue)		x	
Russia		500 €/Ton (raw), 10% (wet blue)		x	x
Ukraine		30% (raw, min 400 €/Ton)		x	

There are another applied duties intermixed on the local rules that benefit determined operations and/or places, that is difficult to research due to complexity of the conditions. But all of them follow the same logical: protect the local industry and regulate the demand / offer of the material. The consequence is the elevation of costs to final consumer and the elevation of collection of taxes to the government.

5 Future and Tendency

There’s no expectation that the scenario of application of some duties change on the short space of time.

Considering the actual situation, that the hides and skins are with a very strong demand and higher prices that never was before the *vies* could be that more taxation and protect actions be assume for different countries.

Recently the industry's representative body in the European Union defended the evaluation of whole situation due to "critical shortage" of the required raw material in the EU and proposes "corrective measures".

"They find it intolerable that public authorities continue to ignore the gravity of the situation," COTANCE said of the tanners. "It is high time for taking the necessary measures to redress a situation that is holding a leading industrial sector in Europe hostage. Failure to do so could compromise seriously the competitiveness of Europe's leather sector, the cradle of the creation of wealth and employment in the leather value chain." (Leatherbiz, 2013)

Beside not clear what kind of action could be consider and applied, the idea is control the exit of raw material from Europe to another places and preserve the local tanneries.

6 Conclusion

The leather industry around the world isn't different to other industries. The rules are running, available and known for everybody and every country.

There are many tools to control the local market, and the tanneries must understand this mechanism and participate actively to influence what are happened on this country and their market.

The perspective does not show us that the scenario could change a lot. Only appearing isolates situation depending the market route.

We must accustom and live together with this kind of mechanism to survive and continue to supply the final customers.

As much as internationalized the company is, more flexible could be their business and maybe this kind of company could manage the different situations and circumstance of the place that they are inside.

The taxation not shows as a bad tool but have a price: the final cost to the consumers that can decide if leather still deserves the value paid for them. The risk is being changed for other material if the countries abuse of their protection.

This study shows that are still much to control and follow, and awake the tanneries to think about their participation on the movement of their countries and their rules.

References

- [1]. NOGUEIRA, Saulo P.L. Como derrubar as barreiras internacionais de comércio: Manual de diplomacia comercial. Saulo P. L. Nogueira. São Paulo. Lex editora, 2006.
- [2]. MARCONINI, Mário. Acordos Regionais e o Comércio de Serviços. Normativa Internacional e Interesse Brasileiro.Ed.Aduaneiras.2003.São Paulo.
- [3]. Kim, J. (2010), "Recent Trends in Export Restrictions", Jeonghoi Kim. *OECD Trade Policy Working Papers*, No. 101, OECD Publishing doi: 10.1787/5kmbjx63sl27-em
- [4].SAUER,2008,
http://www.leathermag.com/news/fullstory.php/aid/13102/Global_leather_markets_and_raw_material_prices.html
- [5]. Ministério do Desenvolvimento, Industria e Comercia do Brasil. MDIC. Available on:
http://www.mdic.gov.br/sistemas_web/aprendex/default/index/conteudo/id/28
- [6]. Ruiz, M.S.; AGUIAR, A.O.;Cortez P.L.; at all. "Technical Barriers to Trade of Leather and Footwear: Impacts and Challenges Posed by International Standards, Regulations and Market Requirements in Brazil". <http://dx.doi.org/10.5772/50575>
- [7]. Leatherbiz <http://www.leatherbiz.com/> . Posted on 10 April 2013