



International Council of Hides Skins & Leather Traders Associations

ICHLTA 86th AGM - 29th March 2015, HKCEC, HONG KONG

1. Opening of the 86th Annual Meeting, Constitution of the Council and Apologies for absence

Nick Winters, as President, opened the meeting at 2.05pm on March 29th.

2. Constitution of the Council and apologies for absence & Adopt the Report of the 85th AGM

The attendees were:

Ian Scher from AHSLEA, Chen Zhanguang from CLIA, Li Yuzhong from CLIA, Nick Winters from SGCP, Francis Amiet from SGCP, Louise Manning from SGCP, Andrew Ritchie from Lowe Corp in New Zealand, Kevin Chiou from TILA, Stan Ku from TILA, Thomas Yu from TILA, Steve Sothmann from USHSLA, Jamie Zitnik from USHSLA, Mike Larson from USHSLA, Ken Maxfield from The Maxfield Report.

Japan Leather & Leather Goods Industry Association was represented by Nick Winters.

Apologies for absence were made.

The President noted that there was a full Council attending.

He also announced the Press would attend the second half of the meeting for the 1st time in 10 years.

3. Adoption of 85th AGM report

The report following the 85th ICHSLTA AGM was adopted by the majority.

4. Financial Report

Nick Winters presented the accounts for the years 2013, 2014 and the budget for 2015.

- 2014 showed a loss of 3,151 USD, which is due to the cocktail fees.
- 2015 is expected to bring in a small profit of 3,400 USD which was approved by the board.

Nick Winters explained that the rise in costs to 2,000 USD from 1,500 USD was from dues.

Mr Ian Scher from AHSLEA requested the account balance for the end of the year 2014.

Nick Winters confirmed it was USD 74 256.68.

5. The International Leather Mark Project - GLCC

Nick Winters presented the GLCC ILM Project which is to set up a global sustainable leather mark in order to maintain and enhance the position of leather in the markets as a valued component material for the benefit of consumers and the leather manufacturing sector. According to Elton Hurlow's presentation at the GLCC meeting in Milan in September 2014, it hopes to capture 10% of the global market with a budget of 11 million.

80% of the attendees agreed that this project was interesting and viable.

Kevin Chiou said it was a good project but with its challenges and that it would take time and effort to get people to work together on this. He added that in general it was a good idea to promote the leather industry.

Ian Scher and a majority of the board agree the concept is positive for all industry stakeholders. Nick Winters believes that implementing the project seems ambitious but that the industry should start somewhere.

Chen Zhanguang agrees that it is a great idea but in reality we could struggle in to implement such a project. He wonders if the consumers would accept the higher prices.

Nick Winters says that different labels exist worldwide and that the key is to work with the systems and organisations already in place.

Nick Winters explains that following the meeting in Milan, the Italians were clearly not supporting this project. The suggestion to work with Leather Naturally and the Leather Working Group was also rejected by the Italians.

Chen Zhanguang says that China has promoted the general leather market, with 100 companies that qualify. All companies promote their own product. The concept seems a bit idealistic and in reality come up against a lot of problems. The Chinese have had a lot of experience in the last 20 years.

Nick Winters asks whether ICHSLTA should have a stand on this project or wait until there is a clarification on what leather is and what is not.... He adds that the subject will be discussed further during the GLCC meeting the following day.

All attendees agree to keep the project alive and continue to participate in GLCC discussions.

6. ICT request for contract changes

Nick Winters reads the proposition by ICT to change the contract 6 (below: points suggested by ICT from 1 to 7, including answers from ICHSLTA Contract Committee and discussions during the AGM).

1- A clear dedicated space (on the 1st page) for the specific indication of the: Country of origin, province/region, slaughter facility, animal type, breed, physical

characteristics of the hide/skin/leather with specific weight class, etc., grades.
(clause n.1)

>ICT was pushing for a compulsory mention of COUNTRY OF ORIGIN. Rest could be optional. For our committee this was not acceptable. USA suggested "in whole or part" of above should be optional. France suggested a compromise on the "country of origin" saying "COUNTRY OR REGION of ORIGIN". France : This would cover major EU suppliers needing to service large Asian tanners and in doing so securing supply from several EU countries. Example given on wetsalted or wetblue EU dairy cow hides.

Steve Sothmann says that slaughtering facilities are confidential and that should therefore be an optional addition to the contract.

Ian Scher says that Australia doesn't object to divulging the country of origin but the rest should stay confidential if the supplier decided so. He asks if they could either provide information regarding a country or a region.

Chen Zhanguang answers that there is a difference between the country and region for the seller.

Nick Winters says that it can be an optional clause which doesn't have to be in the contract. A lot of tanneries which have been contacted say that it is better to have the country of origin, as there are too many different "regions".

ACTION: A majority agree that this clause should remain optional.

2- Indication of the new Incoterms 2010 in clause n. 1

*>ICHSLTA suggested that because terms change in time that we should refer to the latest INTERNATIONAL CHAMBER OF COMMERCE INCOTERMS in use.
i.e. "the latest version of Incoterms, as promulgated by the International Chamber of Commerce, unless otherwise specified by the parties." ICT accepted this suggestion.*

3- Modifications of allowances/tolerances as follows:

Modifications of allowances/tolerances/minimum/average weight as follows:

weight loss:	2% (from current 5%, clause n.4);
average weight:	3%*
wet blue measurement:	1% (from current 3%, clause n.A2.1);
hides and wet blue piece count:	0% (from current 1%, clause n.C1.2), with minimum weight

*The proposal is to add the following clause 15.8: "Where the contract (clause 1) indicates a minimum/maximum for the average weight, the average weight calculated from the invoice should not be below the minimum and the maximum. Where the contract (clause 1) indicates an "about" for the average weight, no claims to be made for difference in the average weight calculated from the invoice equal to or less than 3%."

Explanation Paul Pearson: "The 3% is in addition to the current 5% (2% proposed by us), that is exclusively linked to the weight loss for transport. So, no conflict at all. The 3% is already a trade practice but has always been missing in the contract: it is specific for average weight when defined as "about x Kg" (and not a specific weight class as "x-y Kg") in order to define the possible range. And it is referred to the average weight of the whole bulk of hides included in the shipment(s) related to the invoice".

>100% refusal from the ICHSLTA committee. ICHSLTA explained that these should be guidelines for trade in the "WORLD". Lower tolerances should be individually negotiated between seller and buyer and placed under "particulars" which is already happening. France mentioned as an example the case of hides being shipped within the EU and from the EU to Turkey at lower tolerances and widely accepted amongst the trade.

Ian Scher says that these allowances / tolerances should be negotiated between the buyer and the seller, and that the current formats are GUIDELINES only.

Andrew Ritchie agrees it should be left as guidelines for negotiations.

ACTION: a majority agree these should be left "tel quel"

4 - Insertion of the following new clause", such as "As the whole leather industry promotes traceability and transparency in its value chain, which begins at the slaughter facility where the raw hides or skins are obtained, the seller commits himself in providing trustful information at least about the Country of origin of the slaughter facility concerned (see page 1)".

*>ICT wanted this phrase to be inserted into the beginning of the contract. ICHSLTA questioned the pertinence of such a subjective and promotional clause being part of a trade contract. ICT went on to say that maybe this clause could be added as an ANNEXE, but ICHSLTA said "where" and should this actually be in the contract ?.....
New Clause – Traceability and transparency*

Nick Winters doesn't think the proposed clause should be in the contract at all and that the supplier should be able to choose whether to put it in the contract or not.

5- "The Seller guarantees full compliance of the products with the legislation on chemicals and environment in force in the buyers country (or other country specifically indicated by the buyer in clause 1) and a clear commitment for an efficient use of preservative tools (e.g. salt)".

>Strong resistance from ICHSLTA especially from Australia and USA involved in leather audits. The following is the USA position which is that of ICHSLTA "It is the Buyer's responsibility to obtain the requisite information regarding regulatory requirements in his home country, and then work with the Seller individually to ensure the supplied product conforms to those requirements. There are a myriad of obstacles that inhibit the Seller's ability to accurately assess the legal requirements of a Buyer's country,

including language barriers, unfamiliarity with legal institutions, confusion regarding overlapping jurisdiction (such as: EU Directives and their relationship to Member State national laws), etc. Therefore, the responsibility to accurately identify the applicable legislative and regulatory provisions lies firmly with the Buyer alone.

Ian Scher and Mike Larson say it's the buyer's responsibility to get the requisite information from their own country before the contract is concluded. The buyer must tell the supplier what is allowed and not allowed in terms of chemicals and environmental legislations. The buyer should provide a copy of restricted substances to the suppliers so they can comply if possible.

Chen Zhanguang agrees.

Jamie Zitnik wonders whether when selling Wet Blue hides, the list of chemicals allowed could change after the contract has been made.

Ian Scher confirms that organisations can change the list of chemicals with a 4-6 month notice and not overnight.

6- Cancellation of clauses 18.1, 18.2 & 18.3 and insertion of the following new clause 18.1 : "Quality, quantity, description and/or condition of the goods to be considered as approved unless the final buyer gives notice of a claim within 10 working days from the date the goods are available for inspection",

>ICHSLTA could agree to a delay of 10 days (this is very similar with current standards), however deleting 3 clauses would need closer examination of the current contract to make sure there are no contradictions elsewhere.

ACTION: Steve will take a look at these clauses and check no incidence with their removal..

7- A new text of clause 21.1: A party claiming "force majeure to give notice within 48 hours from the occurrence of the event and, if required, to furnish satisfactory evidence of force majeure".

>ICHSLTA could agree to this clause in principal however we suggest the terminology put forward by the USA :

"Cases of Force Majeure and unforeseeable circumstances preventing shipment must be notified to the other party, to the extent possible, within 48 hours and upon actual or constructive knowledge of the event."

The buyer should notify the seller directly in case of a "force majeure" and not go through the agent.

ACTION: ICHSLTA and ICT to work proactively in reaching a solution to edit new contracts 6 and 7 jointly in a reasonable period of time.

OPEN TO THE PRESS

Nick Winters welcomes the members of the Press. Each member introduces themselves.

Jean-Pierre Bidegain from IDC magazine (France) thanks the President for opening the meeting to the Press.

Alice Annicchiarico from Insiders Report (Italy) introduces her magazine briefly. It is aimed at tanneries, people in the leather sector and is written in English, Italian and translated into Chinese.

Also present were, Ebony Lyon and Carl Friedmann from Leather International, and finally, Martin Ricker from ILM.

7. President's report

The President, Nick Winters read his report.

"Another year has flown past us and there have been so many things happening in our trade that we have had very little down time.

The shutdown of Chinese tanneries in HEBEI was a major blow to exporters of hides and skins around the world. We had all taken for granted how quickly this region became one of the largest tanning zones in the world in such a short time. Unfortunately environmental controls were not modernized at the same pace of growth. But we must also stand up and applaud the Chinese for taking things under control and insisting that tanners make the necessary investments to keep tanning clean and safe for the generations to come. The trade will be stronger in the longer term and we cannot afford more bad publicity. PETA is already attacking the meat and leather industries very aggressively and we must not give them more fuel to fire the flame.

Another major issue was the disruption of the Russian and Ukrainian economies. These two countries' alone are one of the biggest buyers of leather jackets in the world. The lambskin markets remained in the doldrums for the longest period I have seen in over 22 years. Even well into 2015, we do not see any improvement any time soon. Many keep talking about the slowdown in China but with growth close to 7%, most economies are still envious of such robustness. China will remain the powerhouse of leather production for many years to come and just the national demand alone requires massive imports of raw materials to keep in pace.

Taking aside these disruptions many people were surprised at the continuing strength of hide markets worldwide. As I had said previously we must forget old pricing structures, and get used to the new era of more expensive raw materials from 2010 onwards. Lower kills in developed countries and new wealth with growing middle classes particularly in ASIA will sustain new price levels.

ICHSLTA was involved in several GLCC meetings and phone conferences throughout 2014. The main subjects were around carbon footprints, compiling different standards within the trade, and discussions of a global INTERNATIONAL Leather Mark with all stakeholders from the abattoirs/traders, tanners, chemical suppliers through to the brands. This is still in its infancy but I expect some action before the end of 2015. ICHSLTA must continue to defend the free and fair global trade of hides and skins and promote the use of international contracts.

I invite our members to consult notes of these meetings and lend their support to future events held in conjunction with the Global Leather Coordinating Committee.

Stephen Sothmann has published a very informative paper looking at the legality of Trade barriers and I encourage our members to read it.

ICHSLTA's contract committee along with ICT have been working on modernizing several points in the contracts and I would hope we can announce updated versions of the international contracts 6+7 in the next few months. Special thanks to Stephen Sothmann, Mike Larson and Ian Sher for their time. The ICHSLTA contracts are used by many different countries and co-exist with other specific national contracts however we must bear in mind that the ICHSLTA contract is seen as setting the global guidelines for international trade. I would also like to express thanks to Lena in Paris and the support the French Hide Association for helping me with secretarial duties throughout the year. AS for a vision of what ICHSLTA's role in the world trade of hides skins and leather should be over the next 5 years and beyond, I have a few suggestions. Apart from our work within GLCC, ICHSLTA should also support and promote the education of younger generations entering the leather industry. This could be through such things as an International exchange program where our members could initiate youngsters into apprenticeships within the trade starting from the slaughterhouse right through to the tanneries and include such things as animal welfare and sustainable environmental practices. They could be short missions of 2-3 months, with ICHSLTA issuing a certificate to each apprentice at the end of their mission. Secondly I believe ICHSLTA should collaborate with International meat and livestock industry organizations in the joint defense of our industry and promote the benefits of quality raw material in leather manufacturing. We could also jointly promote good animal welfare and sustainable environmental production. Finally I would like to close on extending a warm welcome our new associate members MANDERS from Holland, KT TRADE from Switzerland, and HORSEED from the United Arab Emirates and wish them every success within our ranks and hope they can contribute their experience to the Council."

8. New AQSIQ Regulation Regarding Animal By-products

The Australian hide association, AHSLEA, received the written request from AQSIQ at the end of 2013 and never received any more information from China after that.

The USHSLA (USA) was made aware of these new requirements at the same time as SGCP (France) late 2014/early 2015.

USHSLA explains that discussions are taking place between the US government and the Chinese authorities.

Nick Winters mentions that discussions are also taking place between FranceAgriMer, French government agency, and the Chinese authorities. He adds that Lena, from SGCP, has forwarded a list of French exporters to the authorities and that there were no answers so far.

The question was raised as to what were the reasons behind such requests from the AQSIQ.

Chen Zhanguang explains that these requirements impacted all animal products and not just hides (but not wet blue). He added that, for sanitary and health reasons, the authorities wanted complete lists of suppliers (processors) exporting to China, and this new legislation was applicable from February 1st 2015.

Chen Zhanguang continues, saying that applications from companies should be made via their home authorities who are in contact with AQISQ; applications will be approved (or not), and on-site audits will be carried out at exporting facilities.

Steve Sothmann confirmed that this process is the same applied to meat industries in various countries by Chinese authorities. He also suggested that a system based audit should be sufficient.

Chen Zhanguang, said, CLIA could suggest this to AQSIQ.

Nick Winters concluded this topic by saying that ICHSLTA members should keep communicating and exchanging information on these AQSIQ requirements.

9. Carbon Footprint update from Brussels

Nick Winters reads a summary of this project provided by the French representative working on this in Brussels.

Nick Winters states that COTANCE is pushing for a 0% allocation.

Ian Scher asks which meat industries 'countries are involved. Nick Winters replies that there are 6 EU countries and several non EU including Australia and New Zealand.

Nick Winters adds that the Steering Committee imposed the default model, which is the economic allocation of upstream burdens, which, according to the meat industry will be difficult to achieve. The leather sector has voiced their opposition as they want hides to bear 0 burden of this allocation.

Martin Ricker from ILM asks whether this allocation will eventually be applied.

Nick Winters answers by explaining that probably either the economic or the physical (dry weight) will be applied at one point.

The final decision will be made by a board of EU scientists.

According to Nick Winters, the problem is to evaluate the carbon footprint per square meter of leather and this will eventually be compared against other components like textiles.

Jamie Zitnik says that there will, no doubt, be an economic tax put on each kilo of carbon.

Jean Pierre Bidegain from IDC says that will be a big problem for the shoe industry. If the prices are too high then they will be out of the market.

10 & 11. Lowe Presentation New Zealand and Maxfield market report

Both presented their slides to the attendees.

Wrap-up and Conclusions

Nick Winters concluded the meeting by thanking the Press and all ICHSLTA members who attended. ICHSLTA may call a mid-term meeting between in Milan or Shanghai. Shanghai was the preference.