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AUSTRALIAN LEATHER INDUSTRIES IN 21st CENTURY 1)

INTRODUCTION

Leather industries in Australia are in the state of a steady decline. Recent report of the TCFL Action Agenda Advisory Board to the Minister for Industry, Science and Resources dated January 14, 2000 recognises this situation when declaring:

"The Industry is at Crisis Point"

" The current state of the Industry and its place in the world economy means that the individual enterprises that constitute the Australian industry must act now if they are to exist in the new world economy....

The industry has a choice. It can exist as a vital and dynamic component in a world industry and the TCFL. Post 2000 Package can assist in the transition. The alternative is not to exist at all in any meaningful sense."

During the second half of the 20th century the world leather business experienced rapid and fundamental changes. The economic, environmental and socio-political pressures transformed the original small-scale, locally oriented and domestically focused leather market into an **advanced global trade**. The same factors stimulated the exodus of tanning and footwear industries from the majority of industrially advanced countries into several progressive developing countries of Asia and South America. This worldwide transformation and relocation of tanning and leather product industries resulted in the **intensification of leather trade and diversification of traded products**. Many tanneries and shoe factories in Europe and North America were victims of this trend and ceased or reduced their production.

At the same time some developed countries of Europe (Italy, Spain, Germany, Denmark) increased significantly their domestic production or transferred their activities partially to other parts of the world. Labour cost and the environment protection cost in the majority of the above countries are the same or higher than in Australia and the availability of domestic hides and skins are limited.

Why Australia with its enormous riches of hides and skins and relative proximity to new centres of footwear and leather product industries in Asia failed to become a prominent participant in the newly reassembled world leather production and trade?

2) WEAKNESSES AND CHALLENGES

2.1) The **added value of leather** increases in the order:

- Raw hide/skin (green, salted, brined)
- Semi processed hide/skin (pickled, wet-blue, wet-white, E.I.tanned) Crust and Ready-to-finish leather
- Finished leather
- Leather components
- Leather products (leather footwear, garments, goods, upholstery etc).

Conversions of a raw hide or skin into wet-blue increases its added value only by 30-40%. The intrinsic value of a salted bovine hide converted into finished leather and used in the manufacture of casual leather shoes increases 4 - 7 times in terms of ex-factory prices. Despite large and unused finishing capacities the production of finished upper leather in Australia is surprisingly small (approximately 15 million sq.ft. in 1999). Great majority of hides and skins are exported in raw (salted, brined, pickled) or semi processed tanned (wet-blue) state.

EXPORTS (\$million)	90/91	95/96	00/01	01/02
Hides, skins, fur skins -raw	413	504	795	669
Leather, leather manufactures	180	463	553	557
Footwear	24	66	64	62

IMPORTS (\$million)				
Hides, skins,	10	2	2	5
Leather, leather manufactures	121	164	193	210
Footwear	384	574	932	978

In 2001/02 approximately 60 - 70% of hides and skins were exported in unprocessed, raw state. This percentage should be reduced within next 3-4 years to 30% resulting in increased export earnings (approximately by \$ 150-200 million) and new direct employment opportunities for 250 - 300 persons.

This substitution of raw exports by **exports of semi-processed tanned leather is supported by the environmental arguments.** By exporting raw hides and skins we are exporting enormous amounts of difficult pollutants to countries, which are already in the environmentally more difficult situation than Australia. **By exporting wet-blue hides pollution load is reduced by 70%.**

2.2) **Footwear production in Australia** is low and its low demand for finished leather does not encourage development of tanning industry. In 2000/01 about 67% of the world production of finished leather was used in leather footwear factories. This percentage is significantly lower in Australia and probably does not exceed 30%.

Footwear production in Australia (in million pairs)

93/94	95/96	97/98	99/00	00/01
16227	14357	12367	9698	8129

Low domestic production of shoes per head of population (approximately 0.4 pair/person) equals with the situation in several developing countries, which do not have a large reservoir of domestic hides and skins.

Approximately 60% of the shoe upper and lining leather used in Australian footwear production is imported and this percentage is increasing systematically. Imported footwear plays a dominant role in the total retail sale of shoes in Australia. In 1999/2000 imports of shoes represented over 50% of total footwear sales and over 70% of footwear numbers. **No dramatic change in this negative trend can be expected in future. The way forward for Australia is by global expansion of our footwear production making use of the facilities located in the proximity to clusters of leather and footwear industries in Asia and Europe.** Such ventures should import and use Australian leather in their production and could re-export part of their outputs to Australia.

2.3) Export of live cattle and sheep is contributing to the decline of the Australian leather industries by:

- reducing the availability of cattle hides (by 10%) and sheep skins (by 20%).
- increasing domestic prices of cattle hides and sheep/lamb skins. deteriorating the viability of Australian abattoirs, hide/skin curing plants and tanneries.
- reducing the international competitiveness of the Australian hide, skin and leather exports.
- exporting local employment opportunities.
- reducing added value and total export earnings.

LIVE CATTLE AND SHEEP EXPORTS (in 000'of heads)

YEAR	CATTLE	SHEEP
1990-91	95	3140
1995-96	616	5880
1998-99	713	4959
2000-01	846	5936
2001 - 02	797	6443

During 1995-2002 the average export price of live cattle fluctuated between \$ 1.29 to \$ 1.79 per Kg of gross weight. The average price of a Kg of green bovine hides during the same period was by 60 to 80% higher. This disproportion represents significant financial losses to national economy and trade balance. **By exporting live cattle Australia is exporting the best quality bovine hides at lowest export price.**

2.4) Objective and subjective impediments.

- geographic isolation and long transport distances to the main footwear production and design centres
- relatively small domestic footwear and leather products market
- total reliance on processing diminishing numbers of domestic hides and skins - overdependence on exports of wet-blue and raw hides and skins -relatively high overheads and costs of trading and administration

-insufficient or fractured in-house research and development works -
slow implementation of technological and waste minimisation cost-cutting procedures.

3) STRENGTHS AND OPPORTUNITIES

large numbers of livestock and other animals slaughtered regularly in Australia

Slaughtered numbers in 2000-01:

CATTLE 7.65 MILLION CALVES 0.96 MILLION SHEEP 14.49
MILLION LAMBS 17.44 MILLION KANGAROO 5.00 MILLION
GOAT, BUFFALO, CAMEL, GAME, EMU SKINS.

good quality of bovine hides and kangaroo skins and excellent flaying (hide pulling) and preserving (salting, brining, pickling) operations complying with world standards
wet-blueing tanneries with modern machinery and environmentally "clean" tanning technology
skilled and cooperative workforce and experienced technical, marketing and managerial staff
realistic pollution control legislation, functioning waste disposal system and cooperative EPA
political, social and financial stability, excellent infrastructure and reliable transport and communication system
relative proximity to the main centres of footwear and leather products industries in Asia (China, Vietnam, India, Thailand, Bangladesh, Indonesia)
established commercial links with advanced and quality conscious tanneries in Europe (Italy, France, Germany, Spain), America and Asia.

4) CONCLUSIONS AND RECOMMENDATIONS

Favourable conditions summarised under point 3) should encourage investment in tanning industry by domestic and international companies wanting to leap into Asia. The main reasons why tanneries in Australia are not attracting such investment are as follows:

- shrinking numbers of domestic hides and skins available for conversion into added value products
reduced profitability of the small scale production in the under-utilised plants
- lack of governmental support and encouragement for the global expansion of Australian leather and footwear industries.

4.1) The aim of the "Review of TFC assistance" is to become more internationally competitive. We do not believe that the existence of small tariffs represents an obstacle on the way of achieving such goal. **The tariff reduction already legislated should come into effect on January 1, 2005 as scheduled.** 5% TCF tariffs should be maintained to 2015 to provide a long period of certainty and stability to the sector.

4.2) Current SIP arrangements will expire in July 2005. The arrangement should be modified and extended till 2010 to cover:

Environmentally and ecologically positive projects, development of "cleaner" technology, treatment of industrial effluents and waste minimisation programs in TCFL industries.

Joint bilateral projects and business cooperation programs in developing and other selected countries based on use and processing of Australian finished or semi-processed leather (wet-blue, crust etc).

Transfer of the technological, environmental and marketing know-how and intellectual property to joint business ventures abroad.

Only grants No 1, 2 and 3 should be extended. The expenditures eligible for grants should be assessed using modified principles noted under OPTION C.

4.3) EOAP should be extended till 2010 for all imports of leather footwear, shoe uppers and components, leather goods, garments and finished leather where wet-blue, crust or finished leather imported from Australia was used. **Any Australian company importing such leather products should be entitled to apply for the duty payable only on the cost of the overseas content.** Such modification of EOAP would support importing of leather products with Australian content. Simultaneously it would encourage the establishment of joint ventures and other forms of business cooperation with foreign partners. **Same principles should be applied for all segments of TCFL industries.**

4.4) **Australian tanneries and footwear companies should develop the production and commercial cooperation with foreign partners** in countries located within relative proximity to the main leather end-use centres of ASIA (Vietnam, Sri Lanka, Bangladesh, China, Thailand) and EUROPE (Slovenia, Czech Republic, Hungary, Slovakia). Such joint projects would increase traded volumes of semi-processed leather by 40 - 60%. At the same time we would diversify into other segments of the international trade by marketing our technological, environmental and commercial expertise, training and services.

4.5) Development of joint ventures and business alliances abroad will be associated with several risks and challenges. **An active administrative and financial support of AUSTRADE and AUSAID will be of great importance and would facilitate corporate decision-making.** Australian consular representatives in Vienna and Australian delegates working at UNIDO and UNDP should apply for redirection of some UN funds to selected environmental projects, which should form an inseparable parts of the new joint ventures in developing countries.


4.6) Export of raw hides and skins as well as export of live cattle and sheep should be charged by the environmental levy (0.5-1.0% on FOB cost). This additional financial burden would encourage exports of tanned hides and skins. Collected amounts could be used for financing the environmental projects discussed under point 5)

In conclusion I quote Terry McCrann:

"The surest, quickest and most painful path to becoming a victim of globalisation is to try to resist it."

Croydon 25th May 2003.

Z.D.Kotsek

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Consultant