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**MARKETING STRATEGIES FOR
AUSTRALIA'S PROCESSED
SHEEPSKIN INDUSTRY**

PREPARED

FOR

MEAT RESEARCH CORPORATION

BY

CONNECTICA INTERNATIONAL

DECEMBER 1993

The views expressed in this study are those of the consultants and are believed to be complete and correct. The consultants shall not be responsible for any actions taken as a result of information in this study.

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"There is probably no gap in the Australian industrial structure that causes as much debate - and frustration - as the perceived failure to add value to our natural resources"

(Australian Graduate School of Management, 1992)

EXECUTIVE SUMMARY

- ▶ Australia has just witnessed one of the most remarkable transformations of an industry in the world.
- ▶ Through the Meat Research Corporation's Sheepskin Key Program, Australia has seized upon the opportunity to further develop its sheepskin processing industry, while the world's leather processing industry has struggled with:
 - A changing balance to the world's supply of sheepskins.
 - A world shift of leather processing from Europe to lower cost Asian countries.
 - Increasing demand from tanners for quality sheepskins raw materials while sheepskins supplies remain relatively static.
 - The collapse of the eastern European Bloc markets, and market uncertainty in a Europe facing re-unification.
 - The declining role of France as Australia's major customer for raw sheepskins.
 - A hesitant and uneven global economic recovery after the 1991 downturn.
- ▶ The Australian industry has laid the groundwork to deal with these changes in the world markets for our sheepskins.
 - Australia now has a developing fellmongering industry, with the capacity to process almost 25% of the annual slaughter, and a strong, value-adding woolled sheepskin tanning industry.
 - For the fellmongering industry, there are no major sheepskin tanners in Australia, and the industry is at a cross-roads. The choice is:
 - The European industry who possess the industrial experience to professionally tan the Australian pelts, but are in turmoil due to massive disruptions and decline of their markets in Europe, or
 - The Asian tanners who lack the experience and technology to produce quality Australian sheepskin leathers, but have access to large and expanding markets for sheepskin products.
 - By comparison, the woolled sheepskin tanning industry is relatively well-established in Australia, and is one of the few industries in Australia which is able to take a product from raw material through to finished consumer product. It is an industry with significant growth potential to enhance Australia's reputation and market share for quality sheepskin products.

- ▶ The study has identified the following strategic issues are influencing the world markets for sheepskins:
 - The balance of the world's sheep and bovine population is shifting away from developed countries to developing countries.
 - The balance of world supply of sheepskins is forecast to increasingly be derived from developing countries of the world, especially China and former USSR.
 - A great proportion of these skins will be used to supply the rapid growth in the leather processing industry in Asia.
 - Developed countries shall most likely continue to be the major source for higher quality skins.
 - Australia's annual resource of sheepskins is forecast to fall, while the world forecast is for an increasing world annual sheepskin resource.
 - Australia has an annual resource of sheepskins with characteristics potentially suitable to a wide range of end-product markets.
 - The supply of skins from developed countries is expected to increase at a slower rate than demand, and higher quality skins shall be sought after accordingly.
- ▶ The study has focussed upon identifying international consumer market opportunities and trends, and a quantitative analysis of these potential opportunities indicates that:
 - There is the potential to increase Australian industry revenue from the current \$230 million, to between \$330 million and \$400 million.
 - The margin or profitability associated with this increased industry revenue is to the order of between \$85 million and \$123 million.
 - Average industry revenue per skin can be increased from the current \$7.10, to between \$10.10 and \$12.30, based on an average annual slaughter of 32.4 million head.
- ▶ With the recent ratification of the North American Free Trade Agreement (NAFTA), international trade policies are a current topic of much discussion.
 - However in practical terms, international trade barriers and investment policies do not appear to have limited the rapid expansion of international trade in finished leather or leather products.
 - The locations of production in the world leather industry is influenced primarily by commercial competitiveness, and confirmed supplies of raw materials.

- ▶ This study has conducted a strategic review of the Australian industry within the context of the dynamic world market environment, and has defined marketing strategies to further improve the demand for Australia's processed sheepskins.
- A summary of these marketing strategies is outlined below.

GENERAL MARKETING STRATEGIES

- G.1 Support an Issues Management Group which can address common international and domestic issues for the Australian industry.
- G.2 Develop a strong service orientation so that Australian products are tailored to the customer's requirements.
- G.3 Develop a diversified market base across the major consumer markets (North America, Europe and Asia), and the major manufacturing markets in developed and developing countries.
- G.4 The Australian industry needs to be more consumer orientated rather than tannery or manufacturing orientated.
- G.5 Australian sheepskin products need to compete on value rather than price only. Value should be defined in terms of quality, service, innovation and price.
- G.6 Where practical, Australia should seek direct orders for sheepskin leather products from the consumer end of the processing chain, and add value to Australia's source of sheepskins supply.
- G.7 Develop a "branded" profile(s) for Australian sheepskin leather products for consumer markets in developed countries.

| MARKETING STRATEGIES FOR CONSUMER MARKETS | MARKETING STRATEGIES FOR MANUFACTURING MARKETS |
|---|--|
| C.1 Garments | M.1 Slats |
| C.2 Footwear | M.2 Pickled Pelts |
| C.3 Gloves | M.3 Wet Blue Pelts |
| C.4 Leathergoods | M.4 Processed Woolled Sheepskins |
| C.5 Chamois | |
| C.6 Woolled Sheepskins | |

The Bottom Line

Competitive advantages in the world's dynamic sheepskin leather industry will require more than cost control, technology and quality of production.

Market successes for Australia's processed sheepskin industry shall be marked by:

- Superior marketing strategies.
- Proximity to customers, and
- A quality source of supply of sheepskin raw materials.

1. INTRODUCTION

The perceived failure of Australian industry to add value to our natural resources is a source of much debate and frustration.

Sheepskins are one of the most important single co-products of the abattoir sector, and contributes more than three-quarters of the total co-product revenue in sheep slaughtering.

What are the current market opportunities for the Australian sheepskin processing industry?

| DEMAND ISSUES | SUPPLY ISSUES |
|-------------------------------|--------------------------------|
| • International Market Trends | • Material Sourcing |
| • Australian Market Trends | • Product Quality |
| • Commodity Product Markets | • Pricing Issues |
| • Value-added Niche Markets | • Technology |
| • Consumer Issues | • Investment and Finance |
| • Customer Service Support | • International Trade Policies |

Past reviews of the sheepskin processing sector have argued that there is a significant potential for increased returns to Australia, through improvements in quality and processing, and increased value-added processing.

While adding value to skins has been increasing in Australia, the utilisation of Australian sheep and lamb skins is still largely based upon the wool component of the skin, and accordingly underestimates the inherent value of the skin, and indeed the potential to value-add the skin for products such as tanned sheepskins or woolled sheepskin tanning.

With some notable exceptions, the Australian industry has been relatively slow to commercially exploit these opportunities.

This study seeks to identify those factors which link the industry to the market, and the practical issues which affect the marketing strategies.

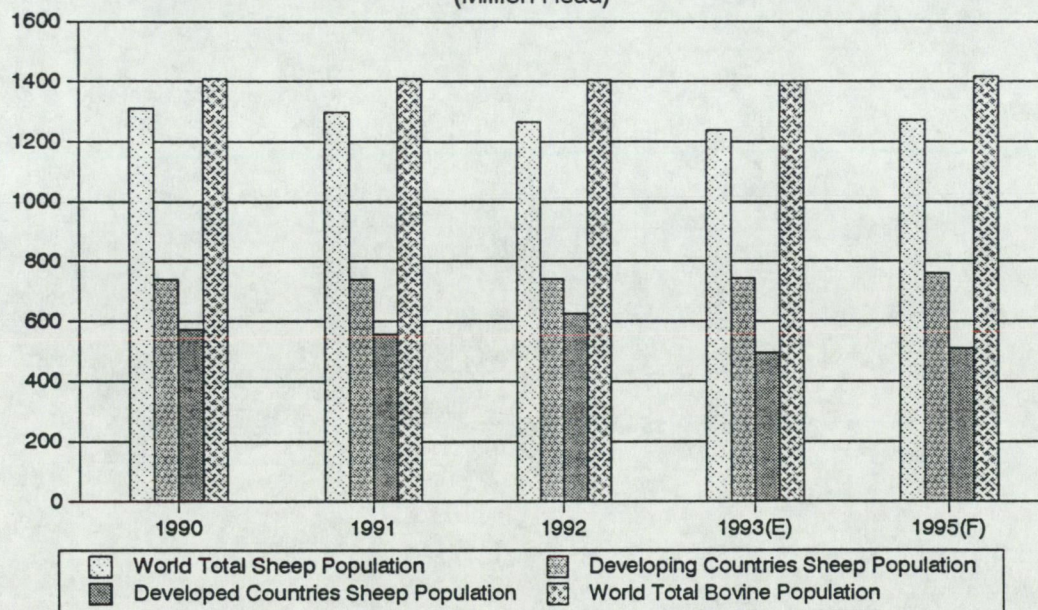
2. SHEEP INDUSTRY OVERVIEW

2.1 International Perspective

Where are the world sheep populations which can potentially supply sheepskins?

The world's sheep population increased to 1.31 billion in 1990 and is forecast to fall by 6% to 1.24 billion in 1993.

Figure 2.1 World Sheep and Bovine Population
(Million Head)



[Source: LMC (1993)]

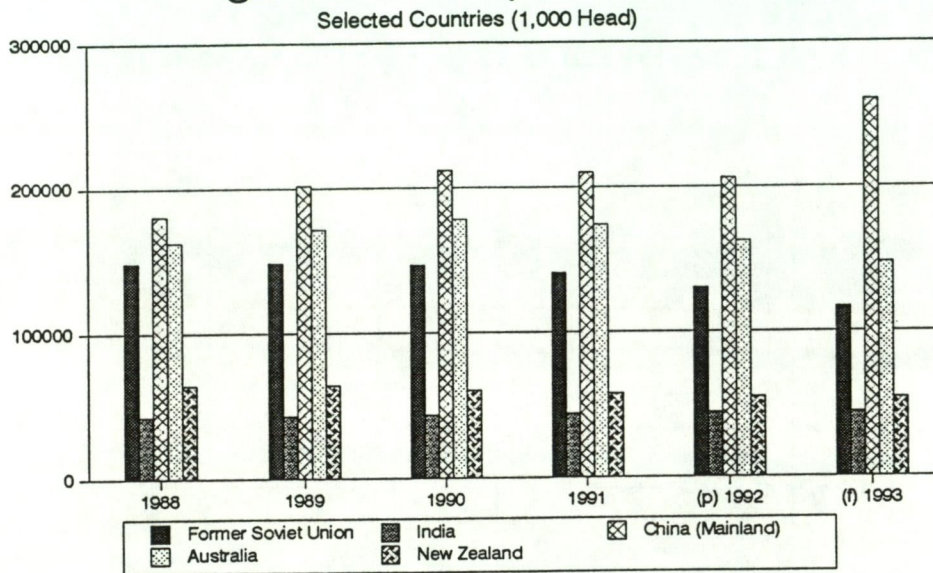
- The world's sheep population is forecast to grow modestly during the 1990's due to increased grazing productivity in developing countries, recovery of world wool prices, and economic conditions in developed countries.
- The balance of the world's sheep and bovine population is shifting away from developed countries to developing countries.

Developing countries have a large proportion of the world's sheep, and this proportion is increasing.

Which countries have the major sheep populations?

Australia has the second largest sheep flock in the world behind China and the former Soviet Union is third.

Figure 2.2 Sheep Inventories



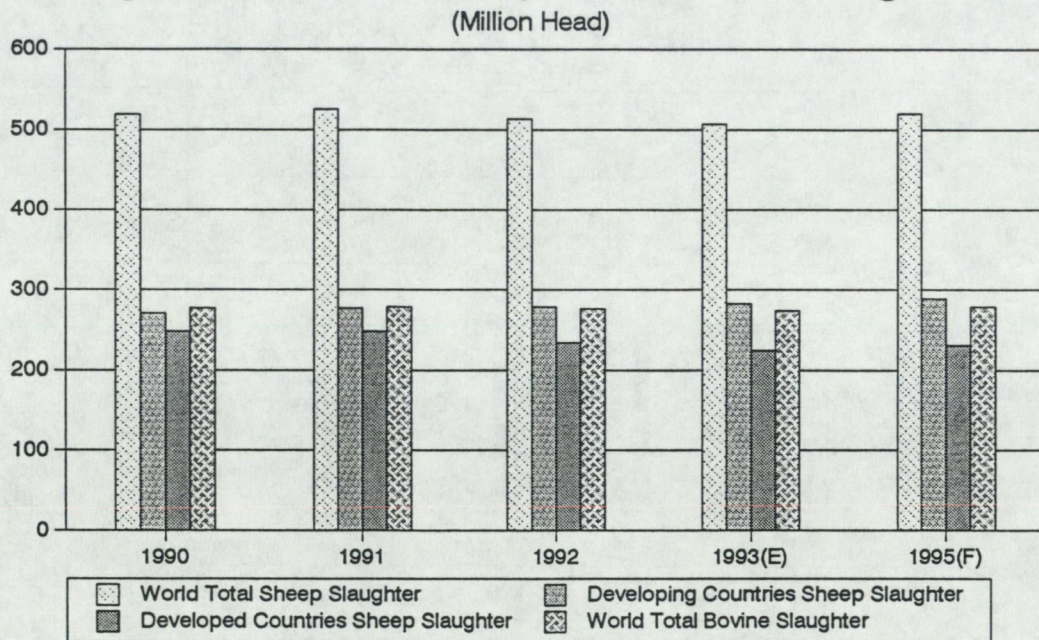
[Source: USDA (1993)]

Will China and the former Soviet Union emerge as competitive suppliers of sheepskins?

What is the trend for world sheep slaughter?

The world's annual sheep slaughter and potential supply of skins peaked at 526 million in 1991, and in 1993 is forecast to reduce by 4% to 507 million.

Figure 2.3 World Sheep and Bovine Slaughter



[Source: LMC (1993)]

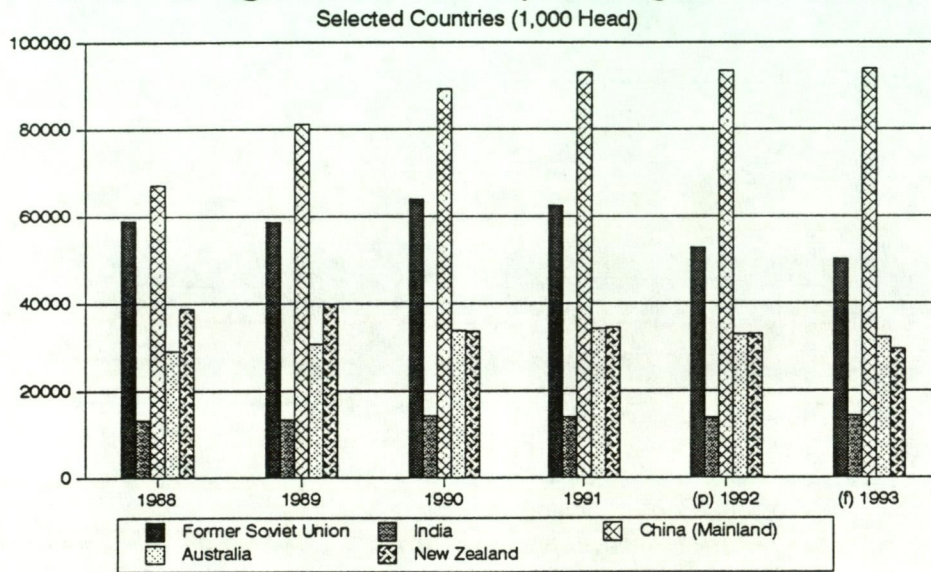
- The balance of the world's supply of sheepskins and bovine hides is shifting away from developed countries to developing countries.

Each year the developing countries slaughter more sheep than the developed countries.

Which countries slaughter the most sheep?

Australia's annual sheep slaughter is the third largest behind China and the former Soviet Union.

Figure 2.4 Sheep Slaughter



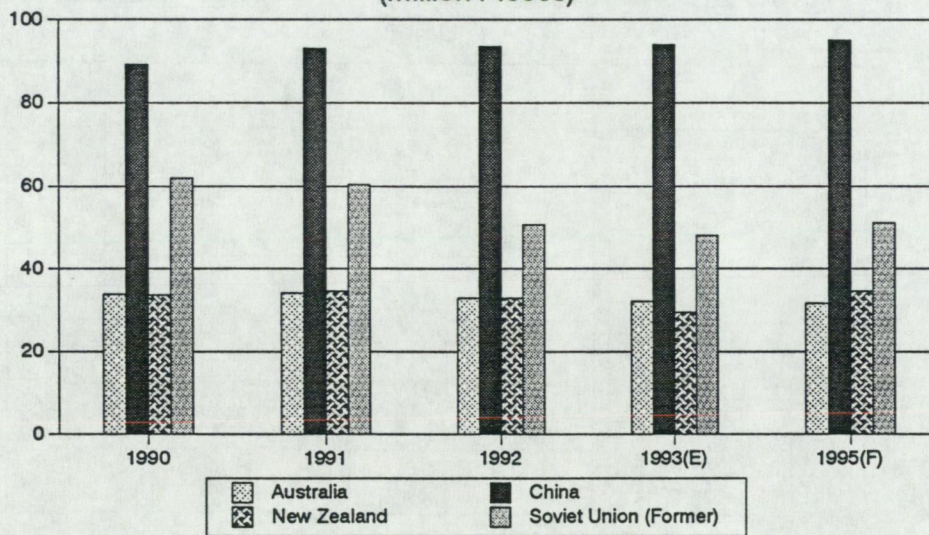
[Source: USDA (1993)]

Developing countries such as China and the former Soviet Union are potentially the world's largest sheepskin supplier countries.

Which countries supply the most sheepskins to the world market?

China supplies most of its skins to its domestic industry and former Soviet Union supplies are uncertain.

Figure 2.5 Skin Production
(Million Pieces)



[Source: LMC\AMLC (1993)]

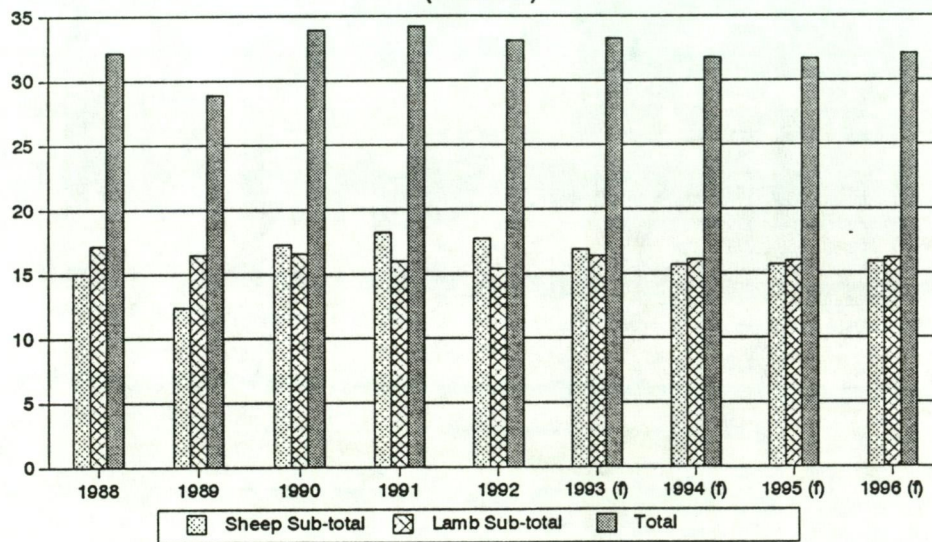
In practical terms Australia and New Zealand have been the world's largest supplier of traded sheepskins.

2.2 AUSTRALIAN PERSPECTIVE

What is the trend for sheep slaughter in Australia?

Australia's annual sheep slaughter peaked at 34.6 million in 1991, and in 1996 is forecast to reduce to 32.1 million.

Figure 2.6 Australian Sheep Slaughter Statistics
(Millions)



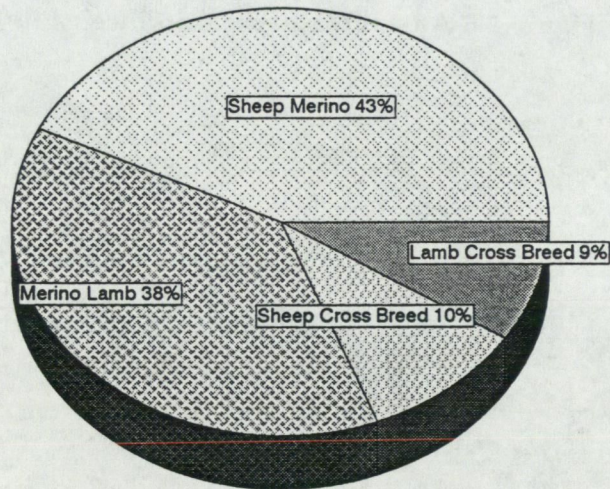
[Source: AMLC (1993)]

Australia's slaughter rate is falling, while the world forecast is for an increasing sheep slaughter rate.

What types of sheepskin can Australia supply to the world markets ?

Australia is the worlds largest supplier of fine woolled sheep and lambskins.

Figure 2.7 Australian Sheep Flock Composition
1992



[Source: AMLC (1993)]

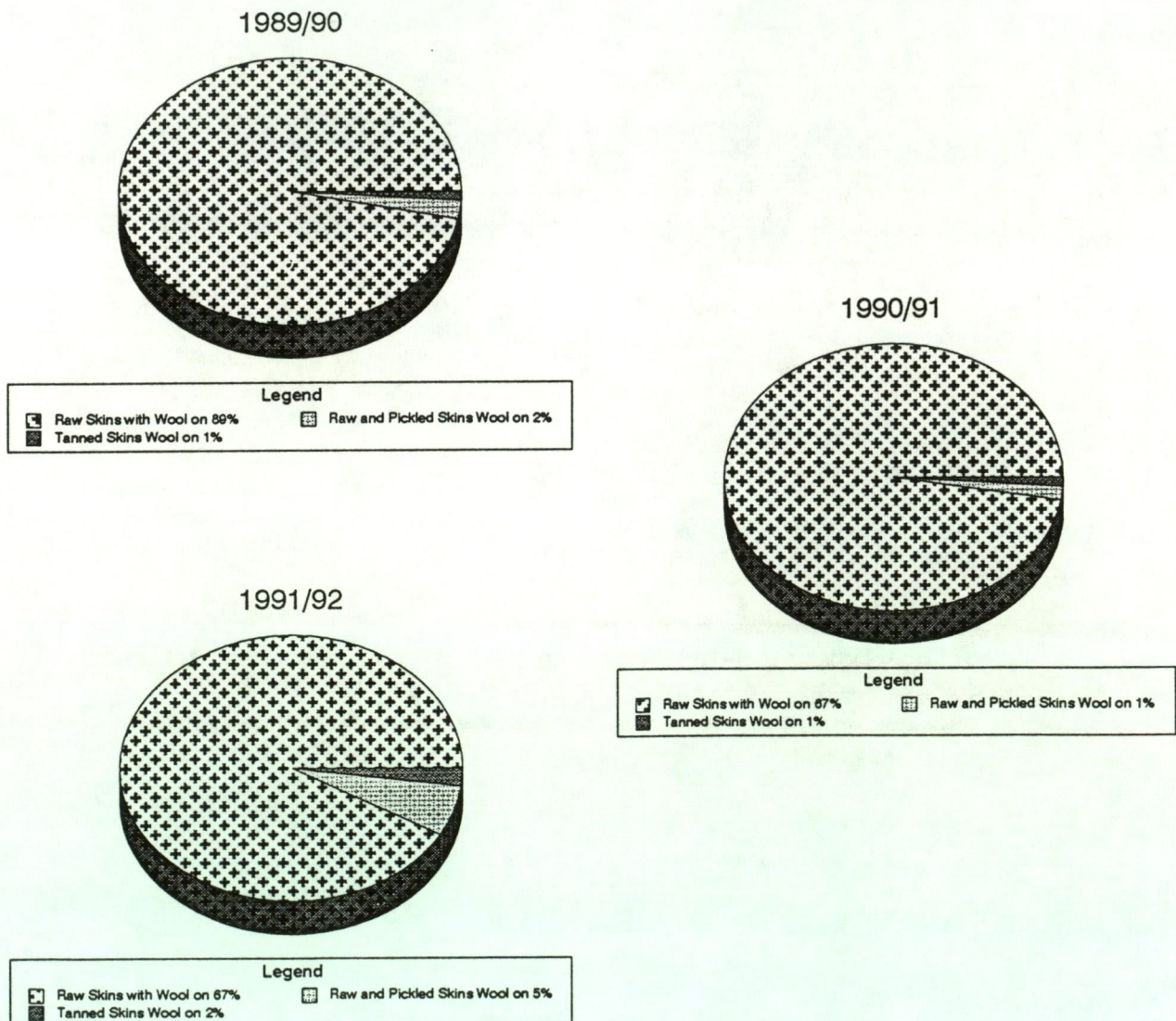
The various types of skins produced in Australia have characteristics suitable to a wide range of end-product markets.

What is the nature of Australia's sheepskin processing export industry?

Australia has 3 processing sectors for the export of sheepskin products.

- Raw skin with wool on is the largest sector and these exports undergo minimal processing and value-adding. Exports have declined 25% since 1990 due to the world wool price crisis, world economic downturn, and industry pressures in Mazamet, France.
- Raw and pickled skins without wool on is the emerging and smallest sector, but has grown by over 100% since 1990. These exports are early stage processed.
- Tanned woolskins is an industry which has the capacity to fully process the product from the raw material to final stage processing for the finished consumer product. Exports from this sector has grown by almost 100% since 1990.

Figure 2.8 Australian Exports of Sheepskin Products



[Source: ABS (1993)]

Where is the Australian sheepskin processing industry positioned?

The entry point in the sheepskin processing chain for the majority of the industry's revenue is at the upstream end as opposed to downstream processing stages.

Figure 2.9 Development Stage of Australian Sheepskin Processing

| Source | Product Development | Sourcing | Manufacturing Stage | | Head Office Marketing | Sales & Field Marketing | Delivery |
|---------------------------|---------------------|----------|---------------------|------|-----------------------|-------------------------|----------|
| | | | Early | Late | | | |
| Tanned Woolled Sheepskins | ● | ● | ● | ● | ● | ● | ● |
| Wool Off Processing | ● | ● | ● | ● | ● | ● | ● |
| Raw Sheepskin Processing | ● | ● | ● | ● | ● | ● | ● |

Legend: ● Major Development ● Some Development ● Minor Development

- Due to Australia's traditional dependence upon raw skin exports, Australia is predominantly a commodity exporter of a raw material. As a result, Australia enters the processing chain at the most "upstream" point, and denies itself access to the final product consumer.
- Australia has by default transferred the responsibility to overseas organisations for the development of markets for Australian sheepskin products.
- Changes in world markets, and changes in technology (including environmental technologies and issues) are "pushing" organisations to undertake early stage processing close to the source of the supply of the skins.
- The challenge for the Australian industry is to "anchor" this early stage processing in Australia, and to use it as the international link for marketing to the world markets.

Where commercially viable, the challenge for the Australian industry is to increase early and later stage processing in Australia, and to use it as the international link for marketing to the world markets.

2.3 THE WORLD MARKETS

EUROPE



Industry Rationalisation due to Market Unification and Collapse of the Eastern Bloc Economies.

- The major economies are under the influence of "recessional" factors, and industry rationalisation shall occur due to re-unification to form a Common Market.
- The successful conclusion to the Uruguay Round of Talks under the General Agreement on Tariffs and Trade shall accelerate the process of farm reform in the EC.
- The EC has experienced some very significant changes to its leather trade, due the changes to the Eastern European economies, such as Poland and former Yugoslavia.
- Prior to the collapse of the Communist System, Eastern Europe had been a significant leather and leather goods manufacturing region. However, without Government subsidies and guaranteed local markets, the industry has contracted sharply.
- Traditional export markets for Eastern European leather goods, particularly in the former Soviet Union, have all but disappeared after the collapse of the Eastern Bloc.
- At the same time, restructuring in the Eastern European economies has lowered real incomes and shrunken domestic demand.
- Demand for leather products in local Eastern European economies have declined more rapidly than local production, and consequently the economies have become exporters rather than net importers of hides and skins.
- It is expected that flock sizes in these countries shall be reduced and for the short term there shall be an increase of skins from these countries.
- The EC has compensated for lost exports to Eastern Europe by increasing exports to Asia. Many of these lost exports have in turn reduced exports of Australian skin products.
- Australia's largest single customer for raw sheepskins (France) has contracted significantly.

Most Western European economies are still under the influence of recessionary factors, and the economic situation remains difficult for those countries in transition from central planning.



AMERICA

USA is a net importer of leather and leather products with a trade deficit in 1992 of \$US12 billion.

- The economy is in a state of gradual recovery, and the leather industry is experiencing some modest growth due to a stronger US dollar and increased exports (especially to Asia).
- The recent ratification of the North American Free Trade Agreement (NAFTA), and the successful conclusion to the Uruguay Round under GATT is expected to provide a major economic stimulus in the medium term.
- Despite this, the tanning industry in the United States has contracted significantly from 338 plants in 1987 to 110 significant plants in 1992.
- Mexico has provided the opportunity for low wage cost tanning, and the leather products industry is focussed on the North American market.
- Environmental regulations for control of waste discharge from tanneries is becoming increasingly stringent.

North America is showing encouraging signs of stronger economic growth, however consumer demand is modest and restrained.



ASIA

Leather tanning and leather product manufacturing industries have expanded rapidly causing a huge demand for raw and semi-finished skin imports.

- Most Asian economies are booming due to the region's traditional exporting prowess, its rapid emergence as a market unto itself, and its attraction for foreign capital investment.
- In contrast to the developments in Europe and North America, non-tariff barriers in Asia are falling.
- Emergence and growth of skin processing in lower cost Asian countries especially China, Indonesia and the Indian sub-continent.
- The China leather industry is experiencing strong growth, with an expanding domestic economy and a steadily expanding export industry.
- Other Asian economies such as Japan, Taiwan and South Korea are moving their later stages of leather products manufacture to China and South East Asia. These economies tend to retain the less-labour intensive, and proprietary activities within their own economies.
- By comparison, many European economies are moving their early stages of production to China, and subsequently transferring the output to their home economies for value-adding close to the European markets.
- Asia is emerging as a large consumer market for finished leather products.

"Excluding Japan, Asia is set to outpace the growth of the world's 24 leading industrial economies by more than six times in 1993."

Asian Wall Street Journal (1993)

2.4 SUMMARY

- The balance of the world's sheep and bovine population is shifting away from developed countries to developing countries.
- The balance of world supply of sheepskins is forecast to increasingly be derived from developing countries of the world, especially China and former USSR.
- A great proportion of these skins will be used to supply the rapid growth in the leather processing industry in Asia.
- Developed countries shall most likely continue to be the major source for higher quality skins.
- Australia's annual resource of sheepskins is forecast to fall, while the world forecast is for an increasing world annual sheepskin resource.
- Australia has an annual resource of sheepskins with characteristics potentially suitable to a wide range of end-product markets.
- The supply of skins from developed countries is expected to increase at a slower rate than demand, and higher quality skins shall be sought after accordingly.

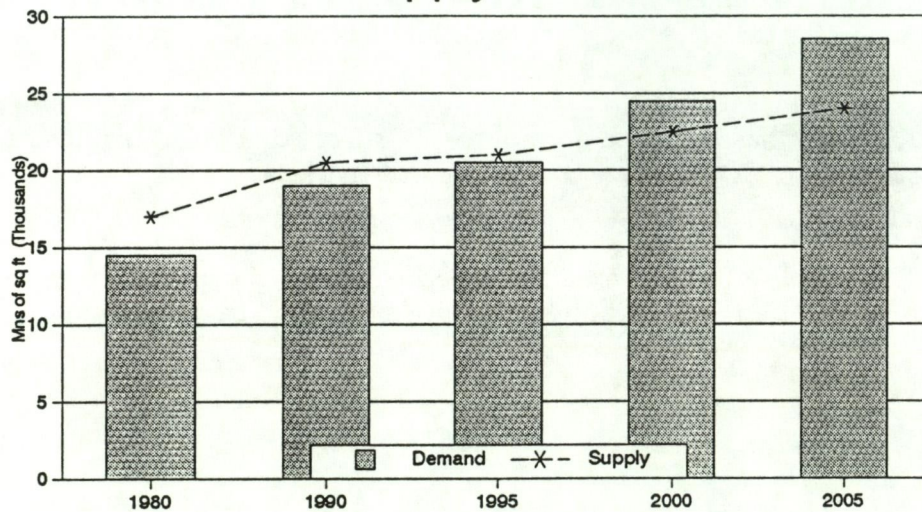
3. THE DEMAND FOR LEATHER PRODUCTS

3.1 GENERAL

"The growth in the potential demand for leather worldwide will outstrip supply".

(LMC, 1993)

Figure 3.1 Potential Demand and Supply of Leather



[Source: LMC (1993)]

The global outlook for leather consumption is that the demand for both ovine and bovine finished leather shall continue to increase, especially with the luxury leather goods items such as leathergoods and upholstery.

This outlook is also based upon the emergence of domestic economies with disposable incomes, especially where consumer demand for products exceed the domestic finished leather tanning capacity of the industry. This outlook is further supported by a relatively slow growth in the availability of hides and skins.

Growth in the demand for leather products is closely linked to the growth in consumer purchasing power or per capita income (Gross Domestic Product, GDP) in most countries.

Table 3.1 Gross Domestic Growth Statistics for Selected Countries (%)

| Country | Annual GDP Growth (%) 1991 | Annual GDP Growth (%) 1992 | Annual GDP Growth (%) 1993(F) | Annual GDP Growth (%) 1994(F) |
|------------------------------------|-------------------------------|-------------------------------|----------------------------------|----------------------------------|
| Australia | -1.1 | 1.5 | 2.9 | 3.1 |
| China | 7.8 | 12.8 | 12.0 | 9.8 |
| France | 1.1 | 1.8 | - | 2.3 |
| Germany | -2.6 | -1.7 | -1.2 | 0.3 |
| India | 4.2 | 5.0 | 5.5 | 5.7 |
| Indonesia | 6.6 | 6.0 | 7.0 | 6.2 |
| Japan | 4.0 | 1.3 | 1.3 | 0.7 |
| Malaysia | 9.0 | 8.7 | 8.6 | 8.5 |
| South Korea | 8.4 | 4.7 | 4.8 | 6.5 |
| Taiwan | 7.3 | 6.4 | 6.0 | 6.2 |
| Thailand | 8.2 | 7.5 | 7.5 | 8.0 |
| United States | 1.2 | 2.1 | 3.2 | 3.2 |
| Former USSR | -9.0 | -18.5 | na | na |
| Former Eastern Bloc/Central Europe | -13.5 | -7.5 | na | na |

[Source: IMF (1993), OECD (1993)]

Since 1990, the world demand for leather products in general has grown only modestly, largely as a result of reduced consumer spending in major markets affected by the world recession.

Leather shoes and garments are the two largest markets for leather products.

At present:

- Leather garment sales are almost static.
- Leather footwear is growing slightly, largely as a result of the developing Asian domestic markets.
- Markets for quality and luxury leather items such as upholstery, briefcases, bags and leathersgoods are strong and growing. Many of these products utilise exotic leathers such as emu, crocodile, snake and kangaroo.

Clearly, the consumer markets for potential growth in leather product demand are in Asia and the Indian sub-continent.

3.2 THE DEMAND FOR LEATHER FOOTWEAR

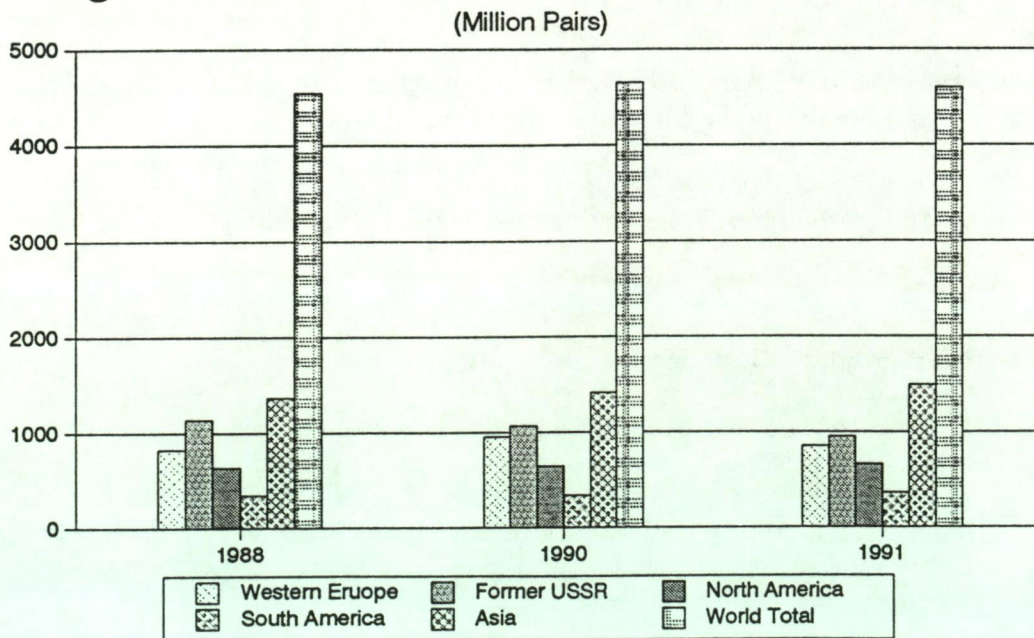
Market Consumption

The leather footwear industry is forecast to experience stronger average annual growth of 5% due to increased consumer confidence in wealthier countries and increased per capita consumption of leather footwear in the rapidly growing economies of Taiwan, South Korea, Thailand, Indonesia and China.

Footwear is the largest leather market in the world and market growth at present is static. Over 60% of the world's leather production is used for footwear uppers, linings and soles.

- Leather footwear represents some 45% of the footwear market and since 1980 has grown by some 31%.
- World demand for leather footwear is expected to grow relatively slowly initially, but in the longer term shall average 5% annual growth during the late 1990's.
- The world market for leather footwear is anticipated to expand further with the additional demand occurring in the growing Asian economies. For example, in 1991 China produced some 530 million leather shoes and 400 million of these were consumed by the growing domestic market.

Figure 3.2 World Leather Footwear Consumption



[Source: LMC (1993)]

- The consumption of leather footwear is traditionally attributed to the wealthier OECD countries such as United States, Canada, Japan, Germany, France, Italy, the United Kingdom. Consumer demand in these OECD countries has until recently accounted for some 70% of global imports of leather shoes.
- For example, in the United States:
 - The consumption (imports and domestic supply) of non-rubber footwear increased by 4.6% in 1992, to an estimated 1.1 billion pairs.
 - This equates to a per capita consumption of about 4.4 pairs, which reversed a five year decline in consumption.

**Table 3.2 US Non-Rubber Footwear Imports
January to June 1992**

| COUNTRY | QUANTITY | | % OF CHANGE 1991-92 |
|--------------|----------------|--------------|------------------------|
| | THOUSAND PAIRS | % OF TOTAL | |
| China | 233,088 | 48.2 | 29.5 |
| Brazil | 55,548 | 11.5 | 14.3 |
| Taiwan | 48,785 | 10.1 | -28.6 |
| South Korea | 38,878 | 8.0 | -31.3 |
| Indonesia | 34,494 | 7.1 | 63.0 |
| Italy | 21,403 | 4.4 | 4.8 |
| Thailand | 13,427 | 2.8 | -1.5 |
| Other | 38,340 | 7.9 | -50.2 |
| TOTAL | 483,983 | 100.0 | 0 |

[Source: US Department of Commerce (1993)]

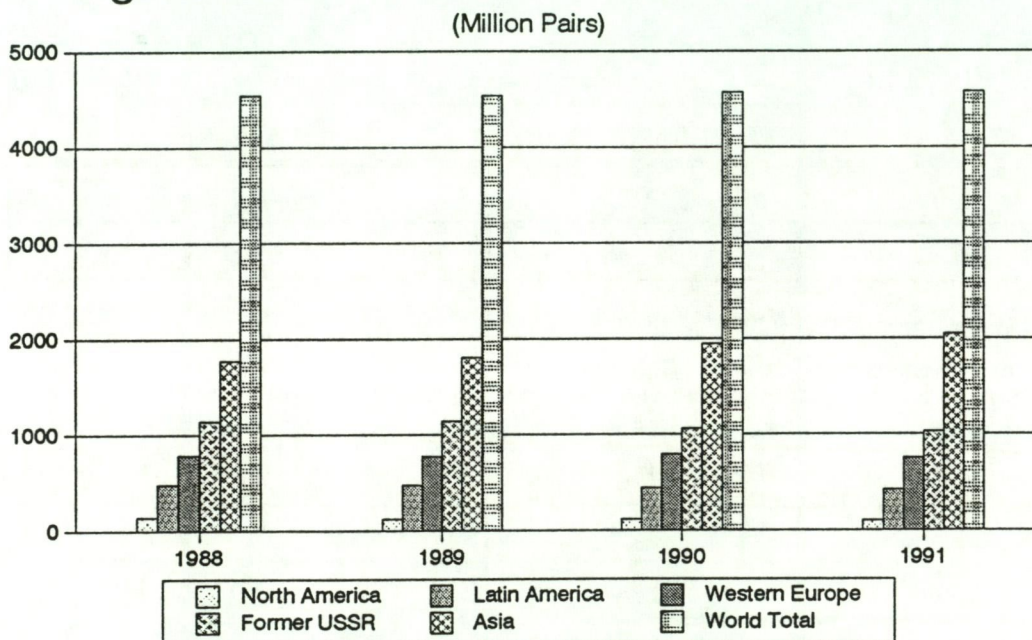
As leather footwear is the largest leather market in the world, even a relatively small share of this market can represent a significant amount of demand for leather.

Footwear Manufacturing and Production

Where shall the shoes be made to meet the future consumer demand?

- In only a few years, countries which were insignificant exporters of footwear have rapidly emerged as major production centres, and overtaken the traditional sources of supply.
- Between 1978 and 1990, Asia has increased its share of world footwear production from 40% to 51%, while developed countries have seen their share decrease from 25% to 17%.

Figure 3.3 World Leather Footwear Production



[Source: LMC (1993)]

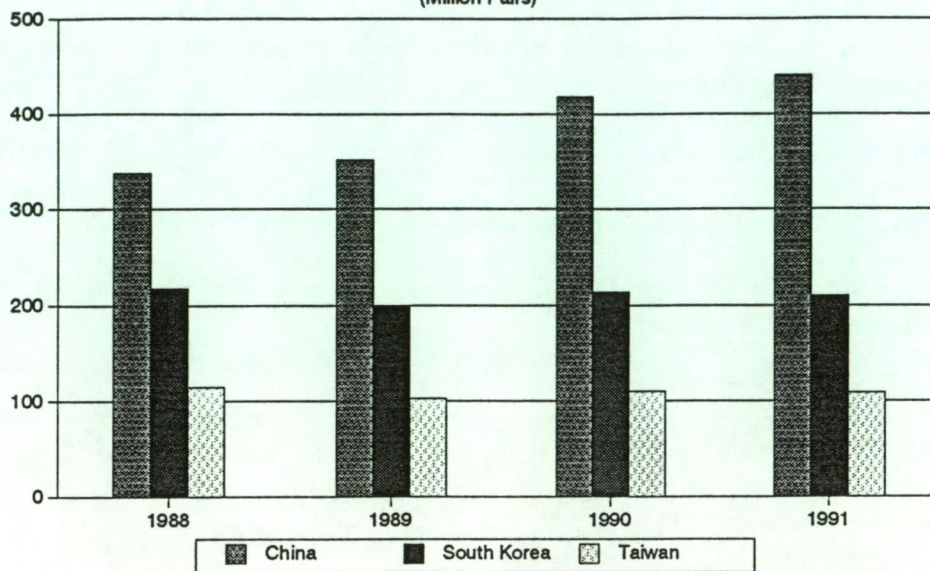
- The leather footwear manufacturing industry in Western Europe has been in continuous decline since 1985. For the period 1985-1991, the combined shoe production output from the industry fell by over 13% to 750 million pairs.
- There has been a substantial shift over the last decade for footwear manufacturing to be located in Asia. Further the locations for footwear manufacturing within Asia has also changed with the recent emergence of lower wage cost Asian economies such as China and Indonesia.
- The dominant Asian producers of footwear for export were South Korea and Taiwan during 1980's. According to the Korean Leather Footwear Industries Association, in 1992 there was a fall of 26.5% in volume to 231 million pairs compared with 1991, and is the Korean footwear exporters worst performance in memory.

- The same factors which undermined the Western European leather footwear industry, has also reduced the competitiveness of the South Korean and Taiwanese industries.
- The decline in the leather footwear manufacturing industries in Taiwan and South Korea has been due to decreased competitiveness from both rising wage costs and appreciating currencies.
- However, these Asian economies have responded to the situation by outsourcing their manufacturing to lower cost countries in Asia causing a boom in shoe production in such countries as China, Indonesia and Thailand.
- Tanners are focussing their sales of leather to the shifting locations of leather footwear manufacturing.

In 1993, China became the largest shoe manufacturer in the world, and the largest single source of US footwear imports supplying over 233 million pairs from January to June 1992.

- This boom in Asian production is demonstrated by China with footwear exports booming by over 500% between 1985 and 1991.
- Similarly, Indonesia has emerged since 1986 , to become the fourth largest Asian footwear manufacturer after Taiwan and South Korea.

Figure 3.4 Leather Footwear Production for Selected Asian Countries
(Million Pairs)



[Source: LMC (1993)]

- The dynamic shift in the location of leather footwear manufacturing within Asia has resulted in an increased demand for leather as the domestic footwear manufacturing capacity outpaces the growth in domestic tanning capacity.

Apart from their usage for shoe linings, Australian sheepskins are not generally used in leather footwear production.

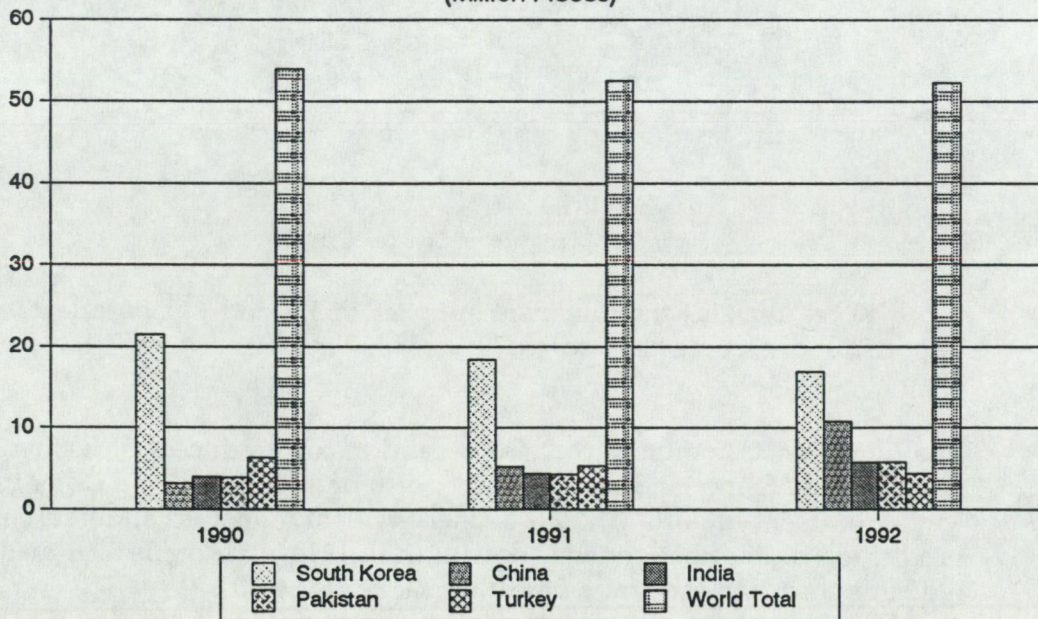
3.3 THE DEMAND FOR LEATHER GARMENTS

Market Consumption

Increasing world incomes and increasing sales values of leather garments confirms that there shall be a modest rate of growth over the longer term for leather garments.

- The consumer demand for leather garments is directly related to the purchasing power or disposable income in wealthier countries, and is influenced by industry fashion trends.
- World demand for leather garments is relatively static as shown by the recent export performance of major manufacturers.

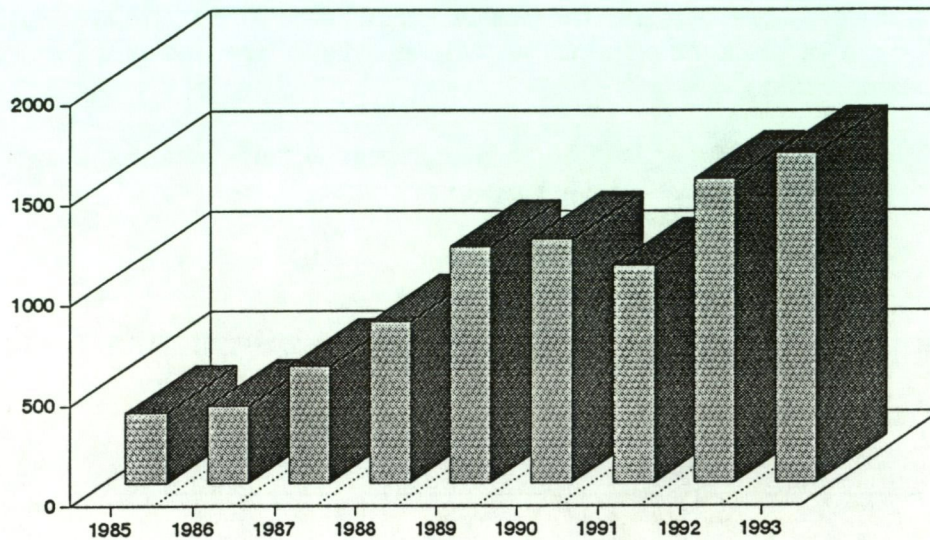
Figure 3.5 Leather Garment Exports to USA, Japan, and EEC
(Million Pieces)



[Source: LMC (1993)]

- The major markets in the world for leather garments are the United States, the EC and Japan. In the US the demand for leather garments has recently been increasing following a slow-down in demand during 1989-91.

Figure 3.6 US Imports of Leather Garments
('000 USD)



[Source: US Department of Commerce (1993)]

- South Korea remains the dominant supplier of US and Japanese leather garment imports, and accounts for some 70% of the markets in the United States and Japan.
- The European Community contains several major producers of leather garments, notably Italy, France and Spain, but it is also one of the world's major markets for leather garment imports. The EC leather garment industries suffered large falls in production during the economic downturn in 1990, with the British manufacturers reducing their domestic sales of leather garments by 50%.
- French domestic sales of garment leather provides an indication of the more recent performance of the leather garment market demand.
 - During the first quarter of 1992, the total production of finished sheepskin was 4.06 million pieces, a fall of 8% on the same period in 1991. Within this figure, garment leathers fell by 8.9% to 2.7 million pieces.

The future performance of the European leather garment sector looks relatively poor, especially with the rising level of imports from such countries as Turkey, India, Pakistan and China.

Who are the major garment manufacturers?

- The location of leather garment manufacturing is very mobile as barriers to entry are low.
- In addition, depending upon market supplies and fashion trends, many garment factories survive by converting production readily between textiles and leather garments. This is occurring in China at the moment.
- South Korea remains the world's dominant leather apparel supplier, but intense competition is occurring from China, South East Asia, India, Turkey and Pakistan.
- Italy and Korea are the major suppliers of higher quality garment leather, and import demand for finished sheepskin leather is strongest from China and Turkey.
- Of note, major manufacturers in Korea, Turkey, India and China are increasingly using the Australian merino skin's ribbiness character as an "exotic" skin quality.
- The geographical shift in demand to Asia for garment leather has not been as swift as shifts in demand for footwear leather in Asia, but the changes appear to be substantial nonetheless

- ▶ *Leather jackets remains the largest category of Korean garment exports to the US, Germany and Japan.*
- ▶ *During 1990, leather skirts were the most buoyant sector for Korean leather exports, increasing by 45% to 326 million dozen. However, leather skirt exports by weight grew less significantly, as fashion trends caused average hemlines to rise.*
- ▶ *Further under the influence of US pop-star Madonna's signature leather skirt, Japan was the most buoyant market for leather skirts in 1990, showing once again the crucial nature of fashion trends in this market.*

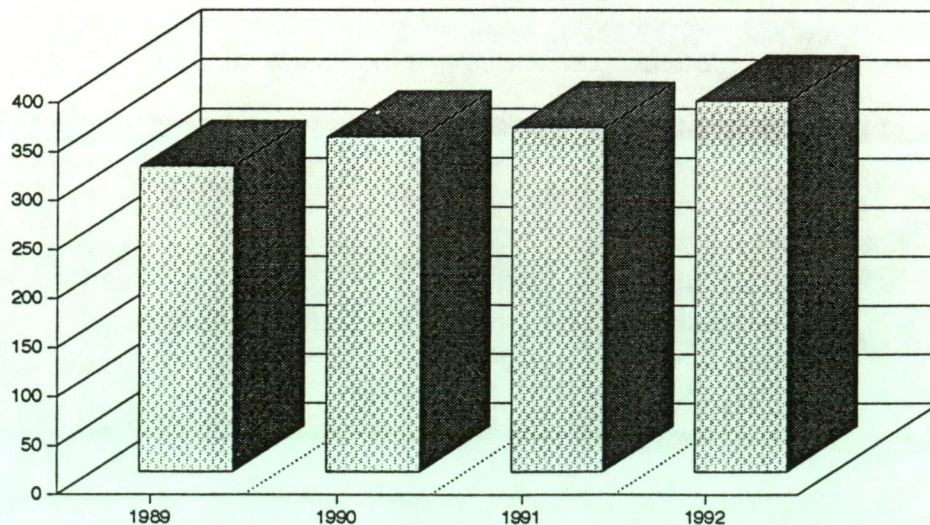
Garment leather is a major use for sound Australian lamb and sheepskins, due to such qualities as lightness, softness of feel and also the merino ribbiness character.

3.4 THE DEMAND FOR LEATHER GLOVES

Between 1988 and 1992, imports of leather gloves into Japan, the US and the EC, has increased by over 40% as an average.

- Japan and the US are two of the major markets for leather gloves and continue to grow.
- The leather glove market can be divided into the following products:
 - Dress gloves which are associated with fashion garments and trends.
 - Sports gloves which is related to sporting activity in various countries.
 - Work gloves which are associated with an economy's manufacturing activity.
- The world glove market is a relatively small market when compared to leather footwear and garments, however it is noted as being one of the most profitable leather industry sectors.
- For example in 1990 Japan imported sports gloves which accounted for less than 15% of the volume of total glove imports, but constituted nearly 40% of the value of the glove imports.
- In 1992 the US market for gloves was estimated to be \$US232 million, of which 85% is imported for dress gloves predominantly from China and the Philippines.

Figure 3.7 US Imports of Leather Gloves
(US\$ Million)



[Source: National Trade Statistics (1993)]

- Due to the proportion of labour costs, US companies have long sourced from overseas, especially for dress gloves. By comparison, less labour intensive work gloves are still produced domestically in significant quantities.
- The major worlds leather glove manufacturers are China, Indonesia, Thailand and the Philippines. China is the largest manufacturer for all three glove markets, and is also the largest exporter of leather gloves to the US.

Table 3.3 Major Leather Glove Exporting Countries

| Country | Leather Glove Exports - 1992 (USD Million) |
|-------------|--|
| China | 270 |
| Indonesia | 55 |
| Philippines | 20 |

(Source: US Department of Commerce (1993))

The gloving leather market (especially for work gloves) is a significant opportunity for Australian sheepskins. Australian sheepskin pelts have been supplied for many years to the US, and in more recent times to China. In one example, a major US tanner of gloving leather for work gloves uses over 1,000 dozen pickled pelts per month. These pelts are of Australian origin, and are sourced from Mazamet in France.

3.5 THE DEMAND FOR LEATHER UPHOLSTERY

The world market for upholstery leather is estimated to be US\$1.3 billion per annum, of which US\$900 million is used in auto-upholstery, and US\$400 million is used in domestic and commercial furniture.

3.6 THE DEMAND FOR LEATHER AUTO-UPHOLSTERY

The outlook for US growth in Japanese cars containing leather upholstery appears quite good, despite the recent slowdown in total world sales. By comparison, the European car leather upholstery market is not as strong, but nevertheless it is an emerging niche market for the use of upholstery leather.

- Although available statistics are "unclear", two main factors influence the market demand for auto upholstery leather. These factors are:
 - World sales of motor vehicles.
 - The proportion of these vehicles with leather upholstery.
- Since 1990 the world motor vehicle industry has seen falling production, and as of late motor vehicle demand is slow to recover.
- By comparison however, the US production of cars with leather upholstery rose from 770,000 in 1989 to almost 730,000 in 1992, due to an expansion of leather upholstery into the near luxury car market.
- Throughout the world, this has marked a move in the car market to go down market and develop a near luxury car market segment. For example, the industry has witnessed the launch of new luxury models such as Lexus from Toyota, Infiniti from Nissan and Accura from Honda. The rapid success of these cars in a tough consumer market has surprised the US and European luxury car producers, and probably even surprised Toyota and Nissan.
- In July 1991, both Lexus and Infiniti sales in the US market were higher than sales of either BMW or Mercedes-Benz, astonishingly only two years after their introduction in a market in which "reputation" and "tradition" have been seen as crucial selling points.
- The growth of Japanese production of leathered upholstered cars has spurred a dramatic rise in the import of upholstery leather - particularly from the US - as Japanese tanners have been unable to compete with the more experienced foreign tanners of auto upholstery in this booming market.
- Japanese car makers have been able to import upholstery leather as "auto components", thus circumventing the strict tariff-quota system that severely restricts finished leather imports into Japan.
- The US market for Japanese luxury cars remains promising, as such cars as Lexus and Infiniti are already attracting the prime demographic market of American "baby boomers".

- By comparison, all the major European luxury car manufacturers are experiencing declining sales in the US market due to the recession and competition from the luxury car Japanese imports. For the year ending 1991, sales of BMW and Mercedes were 20% below 1990 levels. Similarly, imports of Volvo's (70% leather) in 1991, had declined 22% and Saab (80% leather) declined by 4%.

With the exception of woolled sheepskins, Australia has not recognised any significant opportunity in the auto-upholstery market. However, it is noted that recently one major European car manufacturer obtained samples of Australian sheepskins to evaluate the potential for their use (with other materials) in auto-upholstery.

3.7 THE DEMAND FOR LEATHER FURNITURE UPHOLSTERY

Consumption of leather furniture shall no longer be the province of the industrialised countries of the OECD, as the newly industrialised economies of South Korea, Taiwan and Thailand emerge as significant domestic markets for leather furniture. Due to the capacity of tanners in Asia, these domestic markets shall largely be supplied by the local tanners.

- Accurate data on the production of leather upholstered furniture is more difficult to access than auto upholstery, reflecting the more dispersed and diffuse nature of the furniture business, and the far larger number of suppliers and purchasers of upholstery leather.
- During the 1980's there was a major expansion in leather upholstering, and the lower quality demands of a large segment of the leather furniture market has permitted many new entrants into furniture upholstery tanning, while auto upholstery tanning has largely been supplied by highly experienced and specialised tanners, mainly in Western Europe and North America.
- This burst of new entrants has led to overcapacity in many countries and reduced profit margins among many new firms.

Three issues appear to have emerged:

- *The share of leather in furniture is considered to be near saturation.*
- *The tanning of leather for furniture upholstery has not kept pace with the profitability of auto leather tanning*
- *The expansion into the middle to lower priced end of this market is becoming risky except for the most cost competitive tanners.*

- Factors affecting the demand for leather furniture include:
 - Level of construction/refurbishment activity in residential and commercial real estate markets.
 - Fashion trends indicate a potentially emerging market in Asia for western style living room furniture, as has occurred in Japan in 1990 and 1991.
- High value leather furniture production is strongest in Europe (Italy and Scandinavia) and cheaper production is occurring in South East Asia.
- Major leather suppliers are quality tanners in North America and Europe, although Thailand and Argentina are recent entrants.

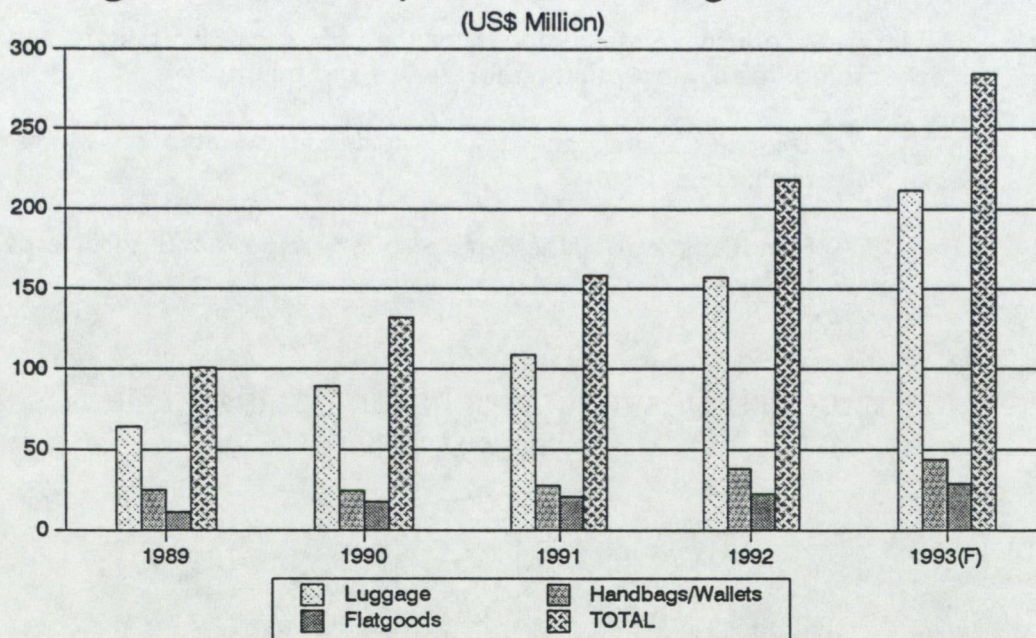
Furniture designers in Australia have begun to recognise the potential to use Australian sheepskins for leather furniture upholstery, and indeed enquiries are coming from China for sheepskin leathers suitable for use in furniture for the US market.

3.8 THE DEMAND FOR LEATHERGOODS

Consumer demand for leathersgoods products will continue to grow largely due to a recovery in the world economies, emerging new consumer markets, and the trend for leathersgoods products to become consumable items.

- Leathersgoods have become consumer items available to consumers in both industrialised and emerging economies.
- The leathersgoods industry produces a wide variety of products, including luggage suitcases, briefcases, attache cases, handbags and flatgoods. Flatgoods are personal leathersgoods such as wallets, key cases, optical cases and other goods which are small enough to fit into pockets or handbags.
- Materials used include leather, plastics, nylon, cotton, linen and metals. Many of these products use combinations of these materials. In the US, about 25% of the finished goods are made of leather, and leather use is highest in attache cases and briefcases.
- The leathersgoods market has developed into two market segments as many consumers are unwilling to sacrifice quality for price.
 - Italy, France and Spain are the dominant supplier of high quality, fashionable leathersgoods especially to the US, EC and Japan.
 - China and India dominate the low cost Asian suppliers for the lower but growing end of the market.
- Australia has demonstrated that it can compete in the higher end of the market by the development of Australian merino leathersgoods products based upon quality and styling.
- Consumer purchases in the leathersgoods sector has been relatively strong. During 1992, leathersgoods consumption was relatively strong whereas in Western Europe the demand was less prominent. In the US in 1992, leathersgoods increased in consumption almost consistently for the last 4 years.

Figure 3.8 US Imports of Leathergoods for 1992



[Source: US Department of Commerce (1993)]

Table 3.4 Leather Content and Sources for US Leathergoods 1992

| Item | Proportion Leather | Principal Sources |
|----------------------|--------------------|---------------------------------------|
| Luggage | 31% | China Taiwan Sth Korea |
| Handbags/ Wallets | 61% | China Sth Korea Taiwan |
| Flatgoods | 47% | China Sth Korea Italy Taiwan |

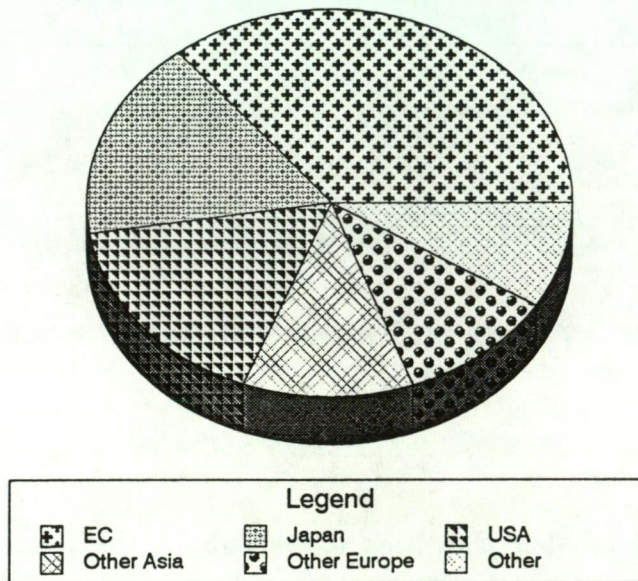
[Source: US Department of Commerce (1993)]

Who are the major leathergoods manufacturers?

- The largest producer of leathergoods for the upper markets is Italy, who has held market share due to its reputation for design and quality.
 - The "Made in Italy" tag is a classic example of successful brand marketing.
 - Handbags and leatherbelts account for 60% and 18% respectively, of Italian leathergoods exports in 1992.

Figure 3.9 Destination of Italian Leathergoods

1992 (US\$ Million)

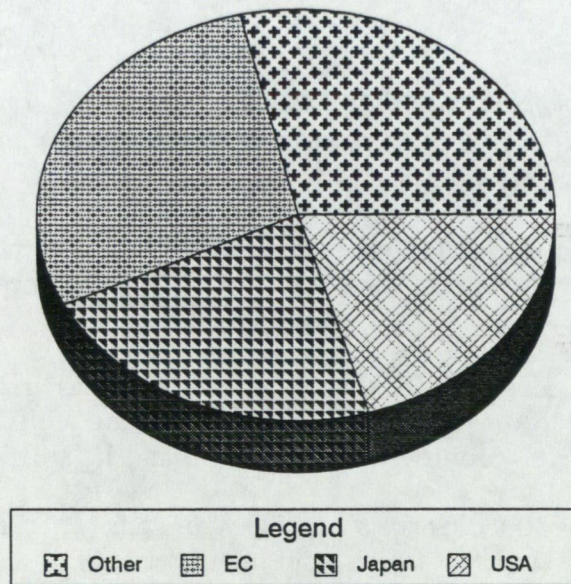


[Source: LMC 1993]

Lower cost producers such as India realise the importance of branding. One company is contracted to manufacture wallets made from sheepskin leather, which the manufacturers of Levi jeans shall market with every pair of jeans sold in the US.

- The largest low cost producer of leathergoods is China.
 - The Chinese products consist of relatively simple designs with levels of quality acceptable for export. It is expected that skills and technology for more sophisticated designs shall be developed with increasing foreign investment.

Figure 3.10 Destination of Chinese Leathergoods
1990 (US\$ Million)



[Source: LMC 1993]

Sheepskin leather, in addition to other leathers, is commonly used in the production of leathergoods. However, Australian sheepskin leather is not well recognised for its use in leathergoods despite its utilisation in Australia.

3.9 THE DEMAND FOR WOOLLED SHEEPSKIN PRODUCTS

General

The woolled sheepskin tanning industry should be recognised as one of Australia's vertically integrated industries which has the capacity to process the product from raw material through to finished product.

- The market for woolled sheepskin products is relatively bouyant, and as niche market luxury products they tend not to be very price sensitive or vulnerable to fashion trends.
- The market for woolled sheepskin products has matured into both high end luxury and lower end semi-luxury products, with the largest markets being wealthier OECD countries such as the US and Japan.
- The major product markets are footwear, garments, floor rugs, car seat covers, medical skins and accessories, and infant care rugs.
- The Australian industry has developed a relatively strong position in the world market by building on the "unique" characteristics of the product, "luxury" positioning of the product in the markets, and relatively good access to a limited raw material. This is especially the case for fine-woolled lambskins.
- The world market for these products is quite strong and the existence of a relatively mature industry infrastructure is allowing the Australian industry to successfully focus on future growth through:
 - Capacity planning of supply.
 - Development of a reputation for quality of product.
 - International market development for Australian sheepskin products.
- The opportunity of this market is attracting the entry of lower wage cost countries into this market.
 - For example, China has a significant domestic sheepskin resource, whereas India and Saudi Arabia are looking to draw upon both the domestic and former USSR sheepskin resources though such areas as Kazakhstan.

International market competition is expected to increase due to the entry of some of the lower wage cost countries such as China, India and Saudi Arabia.

Woolled Sheepskin Products

Woolled sheepskin products are not well appreciated by the markets for their healthy, natural and insular qualities.

- Footwear is a market which generally suffers from the cyclical nature of sales. This is due to relatively high retail costs, relatively crude designs, changes in fashion trends, and with the exception of sheepskin linings in leather uppers and soles, are generally unsuitable for wet weather use.
- Sheepskin garments can be divided into two categories:
 - Low end of the market using poorer quality skins and basic designs for mass commodity sale in colder climate countries such as China and the former USSR.
 - Higher quality markets with more consistent sales due to the quality of tanning and finish, and classic style of design. This end of the market has traditionally been supplied by the Spanish and Turkish tanners, and is undergoing a resurgence as a number of leading fashion houses have re-discovered sheepskin as a light and modern alternative to furs (especially due to the pressure of the animal-rights lobbyist movement). The role of the fashion designers is considered to be a unique marketing ingredient to enable the "new" garments to stand the test of time for classic designs, and to differentiate the products from the "cheaper imitations". For example, many of the designs are value-added with expensive but classic designed sheepskin ("fur") trimmings on collars, hoods and cuffs.

- ▶ *In the UK this year, a group of leading fashion designers released a new fashion collection which is giving sheepskins a new prominence - on and off the catwalk.*
- ▶ *The Vivienne Westwood collection features light weight skins for coats, jackets, cuffs and collars which can be worn all year round.*
- ▶ *Apparently, a breakthrough in tanning technology has reduced the weight of skins by 40% over the past five years, and is proving a popular substitute for fur.*
- ▶ *"Sheep Frills" as the "country set flock to the golden fleece for a ritzier image".*
(Western Daily Press, 1993)

- The cost of manufacturing ready made garments in such competitive countries as Turkey and Korea, has resulted in some interesting market developments for the woolled sheepskin garment industry. For example, Turkey and Korea have traditionally been competitors for the supply of such garments, but in one Turkish company's case it has elected to focus on early stage processing and the production of ready-dyed woolled lamb and sheepskins, which are then supplied to Korea for the manufacture of the finished product for the Asian market.

- Floor rugs are a market segment that Australia dominates. Australia provides over 3 million of the world's annual supply of 6 million high quality fine-woolled lambskins which are largely used for rugs. The quality of the Australian rug product is enhanced especially by the "whiteness" of the tanned product and unique quality of the "merino" wool feel of the Australian skins.
 - Competition in the market is predominantly from the New Zealand industry.
- Car seat covers experienced relatively strong market growth during the early and mid 1980's, but growth in sales of the product has since decreased. Recently there has been increased interest from such markets as Germany, but in general the other major markets are either saturated from the competition from synthetics and fabrics, or require further market development.
- Medical skins and infant care rugs are an emerging market. Traditionally these products have suffered from previous adverse market experiences, competition from synthetics, and their unsuitability for hospital laundry treatment.
 - Recent trials and experiences in the US have demonstrated that these concerns are no longer valid. Clinical studies have further shown that the medical sheepskins actually increased the "recovery rate" of patients due to the medical skins properties for anti-friction with the skin, reduced pressure and compression points, increased ventilation and increased absorbency.
 - In addition, in the US there is an increasing emphasis to shift the national health care focus from hospital and acute care treatment, to long term preventative health care management programs. Indications are that the number of hospitals in the US shall reduce from 5800 to 4800, and home care programs shall increase accordingly.
 - The increasing geriatric proportion of the population in the wealthier countries such as the US and Japan, shall potentially increase the demand for medical sheepskin products in both the hospital and homecare markets.

"Something New from Something Old"

The traditional heavy and basic design sheepskin product has been rediscovered as a new light and young sophisticated product with remarkable qualities for both health and style.

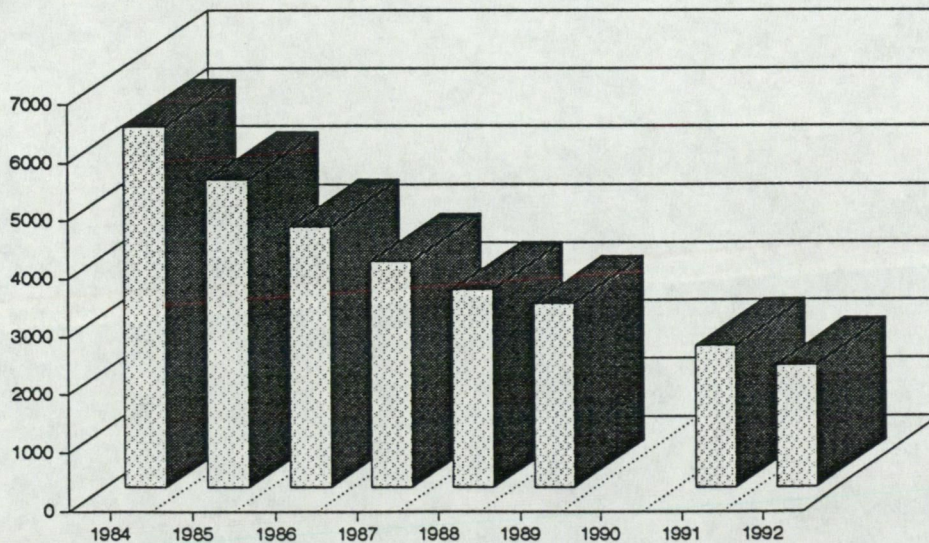
Growth market opportunities for woolled sheepskins are in the garment, furskin and medical skins markets. Design and health are key issues for these markets.

3.10 THE DEMAND FOR LINING LEATHERS

Shoe linings has been a traditional use for Australian sheepskin leather but this market has been in decline in recent times. Indeed, Mazamet in France has indicated that it has lost many of its traditional markets for lining leathers.

- Lining leathers are made from flat, abrasion resistant and colour fast skins, and are generally used as components in the manufacture of footwear and garments. As such, the lining leather market is quite volatile as it is subject to the market demand for shoes and garments, and competition from substitute synthetic materials.
- The lining leathers market is divided between the traditional European centres of footwear and garment production, and the more recent Asian industry sectors in Korea and China.
- The traditional European manufacturers have in the past used large amounts of both sheep and goat skins for lining leathers, but the European market is in decline. For example during 1992, French production of lining leathers from sheepskins fell by almost 14%. This downward trend may level out with increasing demand from the former Eastern Bloc countries, but the timing of this is uncertain.

Figure 3.11 French Production of Shoe Lining Leather
(Thousand Pieces)



[Conseil National du Cuir, Paris / Federation Franeaise de la Tannerie Megisserie (1993)]

- The Asian growth industry centres for footwear and garments are potential growth markets for lining leathers. However, the market opportunity for sheepskin leather lining leathers shall face tough competition from both alternate pigskin supplies and synthetics.

The market opportunity for lining leathers is linked to the growth of the footwear and garment markets, however the growth of the linings leather market in Asia is further clouded by the competition from both pigskin leather and synthetic materials.

3.11 THE DEMAND FOR CHAMOIS LEATHER

"Only real chamois is made from sheepskin - it absorbs four times its weight in water"
(The Chamois Council)

- Chamois is manufactured from the flesh layer of sheepskins, which is derived from either a splitting process, or a shaving process called frizing.
- The splitting process is the most commonly applied, and in addition to the flesh layer, a grain layer is produced which can be processed into skiver leather for use as linings in garments and footwear.
- By comparison, Australian ribby merino skins are generally unable to be split satisfactorily, and instead the skin is frized or shaved of its grain layer.

- ▶ *Chamois manufacturers have traditionally supplied their skiver products to the lining leather markets, but the decline of these markets has caused many chamois manufacturers to be exposed to "distressed sales", and exchange rate fluctuations in the sale of skivers which have become no more than a commodity product.*
- ▶ *There is no skiver by-product associated with the frizing of Australian sheepskins for chamois.*
- ▶ *This can provide a significant processing and cost advantage for chamois manufacturers who do not have or need a market demand for skiver leather.*

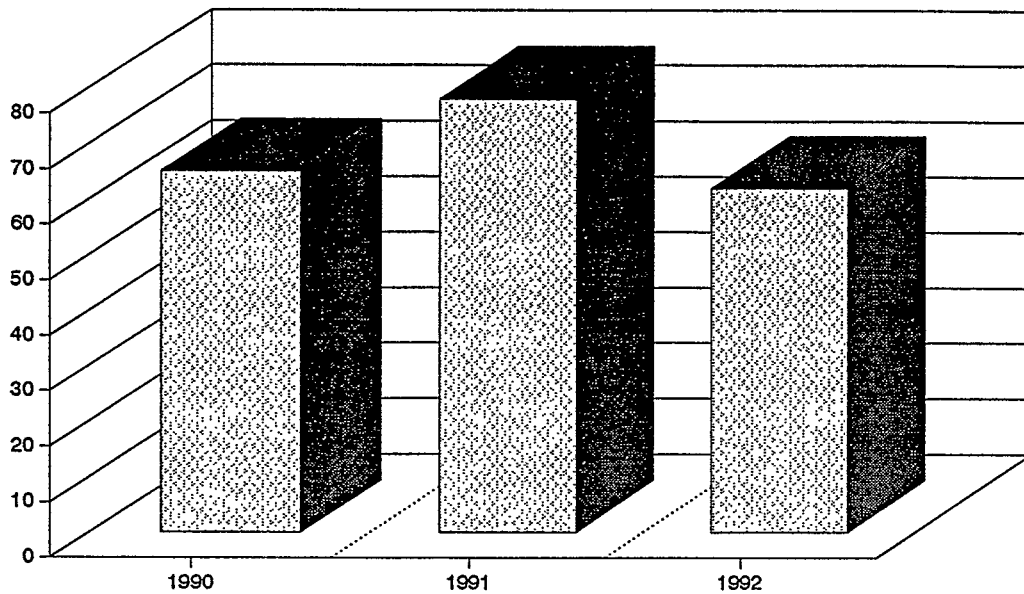
- It is estimated that upto 40% of Australian skins sourced from Mazamet have been utilised for chamois manufacture. These skins were processed in Mazamet as either pickled pelts or slats.
- Skin and pelt quality is an important issue for chamois tanners as this directly affects the yield or cutting square footage of chamois leather from pelts. Australian pelts are perceived to provide a lower cutting square footage of some 35-40 square foot per dozen (after cutting), compared to 50 square foot from New Zealand or UK pelts.
- Prices for pickled pelts for chamois manufacture appear to fluctuate quite significantly due to both the quality or grade of pelts, and the rate of supply of ribby pelts from Mazamet. During 1993, the price for pickled pelts typically ranged between US \$12 and US \$60 per dozen C&F.
- The major market for chamois leather is the automobile cleaning care market especially in the North American and Western European markets. This market is estimated to be of the value of \$US75 million annually.

- Other smaller market opportunities exist for chamois in their use for optical, garment and gloving products.
- The major suppliers of chamois leather are in Europe (Belgium, Italy and the UK.) There has however been a recent trend to locate chamois manufacturing in lower wage cost countries such as Eastern Europe, Mexico and India.

- ▶ *The chamois market opportunity is surrounded with myths and contradictions.*
- ▶ *Chamois leather made from Australian skins is discounted against chamois made from other skins, yet there is no technical difficulty to process the Australian product, and functionally the chamois is as good as other 1st grade chamois products.*
- ▶ *Indeed, the major chamois manufacturers all process a significant proportion of Australian skins in their production - however it is understood that the Australian origin of the skin is often hidden from the chamois purchaser.*

- The major chamois manufacturers are able to exert a degree of market control for the genuine chamois product by controlling the distribution and sale of competitive synthetic chamois product. Lower pricing and positioning of the synthetic products, enables the chamois manufacturers to maintain higher margins and strategic positioning of the genuine chamois product.
- Australia has had the benefit of one chamois tanner, and the majority of these exports has been directed at the United States.

Figure 3.12 Australian Exports of Chamois Leather
(Thousand Square Metres)



[Source: ABS (1993)]

- The product is essentially a consumer item, and the future growth of the market shall be a function of market development, and retail distribution through either supermarkets or speciality stores.

The major challenge for Australia is to gain acceptable market access and recognition in the market place for its chamois product.

The strategic priority is for market development and education.

3.12 SUMMARY

In general, there is a significant market demand for leather products.

Figure 3.13 Market Demand For Leather Products

| Leather Product Markets | Market Demand | |
|------------------------------|---------------|--------|
| | Current | Future |
| Leather Footwear | ● | ● |
| Leather Garments | ● | ● |
| Leather Gloves | ● | ● |
| Leather Auto Upholstery | ● | ● |
| Leather Furniture Upholstery | ● | ● |
| Leathergoods | ● | ● |
| Woolskin Products | ● | ● |
| Lining Leather | ● | ● |
| Chamois Leather | ● | ● |

Legend: ● Strong Market Demand
 ● Moderate Market Demand
 ● Weak Market Demand

The market demand for leather products is large and growing. This demand provides a number of major opportunities for Australian processed sheepskins.

While Australia is well represented in some of the leather product markets, Australia will need to implement new product development and marketing strategies for the other markets opportunities.

4. COUNTRY OVERVIEW OF THE LEATHER INDUSTRY

4.1 CHINA

China has the largest sheep flock in the world, and this is driven by a liberalising economy, domestic demand for meats, and a strong demand from the wool textile and leather industries.

- China appears set to become the world's largest exporter of leather products due to its rapid rate of growth in the production of footwear, garments, gloves, leathergoods and woolled sheepskin products.
- The massive growth in China's leather products manufacturing industries are the driving force for the rapid expansion of the tanning industry.

**Table 4.1 Leather Product Exports
(US\$ Million)**

| Item | January-September 1991 | January-September 1992 |
|--------------------------|---------------------------|---------------------------|
| Footwear | 480 | 1254 |
| Garments | 159 | 370 |
| Travel Goods/Handbags | 345 | 1022 |
| Other Leathergoods | 640 | 1650 |
| Fur Garments | 770 | 1140 |
| Gloves | 145 | 221 |

[Source: China's Customs Statistics]

- Domestic supplies of sheep, pig and goat skins are insufficient for the increased demand, and as a result the tanning industry has generated a sharp increase in the recent imports of both hides and skins.
- Through the first three-quarters of 1992, China had already imported 4.3 million hides and skins, which is approximately twice the total 1991 imports.
- The major hides and skins processing regions in China are Guangdong, Fujian, Shanghai and Beijing.

- The southern regions of Guangdong and Fujian appear to be more orientated towards finished leather tanning and product manufacture, whereas the northern regions have a broader infrastructure to allow early stage processing.
- Consistent with this, wool as a commodity is in great demand especially in Northern China.
- The Chinese tanning industry is based upon the country's huge rawstock base of pigskins. For example, in 1990 China became the EC's largest supplier of pigskin leather ahead of the traditional sources of Taiwan and Yugoslavia.
- Despite the industry's rapid growth, the tanning sector is experiencing difficulties in the following areas:
 - A shortage of foreign exchange has limited the import of quality tanning equipment and chemicals. Much of the equipment is relatively old, and is a limiting factor in the production of a quality of finished leather.
 - Shortages of raw or semi-processed material limits the growth of the tanning capacity, and has been a major factor in preventing tanneries from diversifying into the processing of skins other than that of pigskins.
 - There is a shortage of technical expertise, in the tanning of sheepskins. The lack of raw materials supply and therefore processing opportunity has further exacerbated the problem.
- The market is gradually opening to become a market driven economy, however there is still a significant political agenda that is able to alter the market forces for skins and leather industry. This political influence was recently shown by the austerity program by Vice-Premier Zhu Rongzi in July 1993, which resulted in a reduction in the demand of imported hides and skins.
- The largest political threat is trade sanctions by the United States in retaliation for the human rights record and protectionist policies of the Chinese government. The Most Favoured Nation trade status is reviewed annually by the US Administration, and without MFN, the Smoot-Hawley Tariffs Scheme would see nearly all imports from China to the US face protectionist duties to the order of 70% rather than zero. The bottom line to this is that China's huge trade surplus with the US (forecast to be \$US24 billion in 1993), would be in jeopardy, risking the cash flow which fuels the China economic miracle.
- The footwear industry is the largest leather products manufacturing industry in China, and China is now the largest manufacturer of shoes in the world.
- China is also a large domestic leather shoe market unto itself. It is estimated that leather shoes account for less than 20% of total Chinese footwear consumption, and therefore must represent a huge long term potential growth market.

China and foreign investors have realised the opportunity and are turning China into possibly the world's largest leather production centre.

It is within this context that Australia must recognise that China has relatively little experience in the production of leather products from raw or processed Australian sheepskins.

4.2 SOUTH KOREA

Dynamic competitive advantages versus static competitive advantages.

South Korea's leather industry understands this all too well as its traditionally low costs of production have been eroded, causing manufacturer's to move upmarket and offshore.

- The success of the South Korean leather products manufacturing industry has been predominantly based on the leather footwear (especially athletic footwear), and leather garments manufacturing sectors.
- While the leather garment manufacturing sector is retaining its market share, the Korean leather footwear manufacturing industry is finding it increasingly difficult to compete with other countries due to rising domestic wages and an appreciating local currency.
- Footwear production declined by 26.5% between 1991 and 1992, as manufacturers rapidly outsource production to lower wage cost operations in China, Thailand, Indonesia and Malaysia.
- Accordingly, Korean tanners who have supplied the footwear manufacturers have reduced their levels of hide and skins imports after almost two decades of sharp increases.
- By comparison, South Korea has continued its success in the leather garment industry, and demand for finished sheepskin leather production is the driving force for raw and semi-processed sheepskin imports.
 - It is a concern however, that the leather garment manufacturing industry shall succumb to the same industry pressures as footwear and shall result in off-shore manufacturing.
- Early stages of production are being retained in an effort to maintain a basic industry infra-structure, and later stages of leather goods production is being conducted in other Asian countries (eg, China, Indonesia)
- As a major proportion of the Korea's leather industry's production has been consumed locally, the industry appears to be focussing upon:
 - Export market development through major distribution and trading channels.
 - Export of both finished nappe leather and value-added finished products.
 - Improvement of quality standards.
- Labour shortages and higher wages in Korea's leather manufacturing and garment sectors have reduced its world competitiveness especially in the low value-added end of the market. Korea's garment producers are attempting to concentrate on higher value-added products, including designer clothing and athletic shoes, and are using more sheep and lambskin in place of bovine leather to capture the higher end of the market.

- Accordingly, sheep and lambskin imports from Australia rose from 214,000 raw skins in 1989 to an estimated over 314,000 skins in 1991. Bovine leather is being targeted for export to garment producers in lower cost third countries in China and SE Asia (instead of use by the local Korean industry).
- Korea is the world's largest supplier of finished sheepskin leather, and has become a major importer of Australian skins.

Sources are forecasting that the South Korean garment industry will suffer the same fate as the footwear industry, and with the normalisation of diplomatic relations, much domestic production shall move to China.

4.3 TAIWAN

The leather manufacturing industry has had to move upmarket to produce branded name footwear and products in an effort to compete more effectively with its lower wage cost Asian competitors.

- The majority of the leather industry in Taiwan is based upon the footwear industry. However recent pressures due to an appreciating currency, rising labour costs, and the increasing concern over tanner's pollution has injured Taiwan's shoe manufacturing industry greatly in recent years.
- The number of workers in the footwear industry has dropped from some 205,000 in 1988 to 136,000 in 1990, and the number of shoe manufacturers dropped from 1,275 in 1988 to 733 in 1990.
- Much of the industry has relocated to China, but are still using Taiwanese materials.
- With relatively higher production costs, Taiwan's domestic footwear industry has concentrated its efforts on upmarket leather as opposed to non-leather footwear. This will support the need for specialised leather supplies and fast delivery schedules.
- A slight respite has been provided to the industry by the substitution of hides with relatively cheaper pig skins or synthetic leather.

Taiwan is not a major strategic market for processed Australian sheepskin products.

4.4 JAPAN

Leather upholstery in the near luxury car manufacturing sector appears to be the only leather consuming sector with the potential to generate leather industry expansion.

- The Japanese tanning and leather industry is focussed on leather footwear, and like Taiwan has experienced a shift in the industry to lower wage cost Asian countries.
- Bovine raw materials are imported from the US, Australia and Europe for the manufacture of finished leather, which is marketed to both the local and off-shore Japanese manufacturing plants.
- Due to domestic concern over pollution problems associated with the chrome content from tanneries, pre-processed products which are already treated with chrome have increased significantly in recent years.
- Japan is a large importer of Australian sheep and lambskins for use in the manufacture of leather garments and footwear.

Similarly, Japan is one of Australia's largest export markets for fine-woolled lambskin rugs, and is potentially a large market for other woolled shepskin products such as medical sheepskins.

4.5 THAILAND

The leather tanning industry is largely based upon cattle and buffalo hides, and sheepskin processing is a much smaller proportion. A company which recently established in Thailand to process Australian wet blue merino sheepskins ceased operations during 1993.

- The Thailand leather industry grew rapidly during the 1980's, but is now suffering a downturn due to rising wages and production costs, and increased competition from other Asian economies.
- The Thai industry is also expected to face increasing competition from the development of emerging leather industries in neighbouring countries of Vietnam, Malaysia and Cambodia.
- As a result of joint ventures with South Korea, Taiwan and Japan, the local industry for the manufacture of athletic shoes and cheaper leathers has grown rapidly.
- Similarly, Thailand has become one of the world's largest suppliers of furniture leather, however this sector of the market is facing strong competition from lower cost Asian tanners.

The Thai industry is faced with the strategic decision of whether to position its leather industry at the lower end against China, or at the top end and compete against countries such as South Korea. In this context, there are limited strategic opportunities for Australian sheepskins.

4.6 INDIA

The Indian Government is concerned with increasing the amount of value-added in the leather industry.

- India has a large domestic livestock population of cattle, goats and sheep. However, the quality and supply of the hides and skins to the domestic leather industry is relatively low due to the religious importance of the cow, and the poor animal husbandry practices.
- In order to encourage the supply of raw materials to the domestic industry, the Indian Government has banned exports of hides and skins, and semi-finished leather. There are also duties placed on exports of finished leather.
- Such constraints are now being viewed as counter productive for the industry. Economic liberalisation of the industry is occurring, and is attracting foreign investment.
- The future for the leather products manufacturing industries appear good as:
 - India is a relatively low wage cost manufacturer (just above China).
 - Relatively mature and experienced leather industry.
 - Its culture and language is westernised, and it has major established trading relationships with the world markets.
- Whereas China is largely focussed on its trade relationship with the US, the Indian industry targets the EC with over two-thirds of India's exports of finished leather.
- Leather garments and leathersgoods are the two major manufacturing sectors.
 - The leather garments industry has been able to successfully export to many markets lost by South Korea due to its increased manufacturing costs.
 - Leathersgoods such as wallets and belts have experienced strong export growth, however fashion and design are becoming important factors for future growth.
- The tanning industry is supported by the Centre for Leather Industry Research (CLIR) in Madras, which is the world's largest leather research organisation.

India is attempting to develop new leather industry sectors such as chamois tanning and woolled sheepskin products. Raw and processed sheepskins shall be imported from Australia and the former USSR.

4.7 THE EUROPEAN COMMUNITY (EC)

Between 1988 and 1992 imports of finished sheepskin leather declined by 18% due to the decline in European leather manufacturing centres.

- The major economies are still suffering under the effects of recessionary factors, and industry rationalisation throughout Europe.
- The EC has suffered some very significant changes to its leather trade, especially due to changes in the Eastern and Central European economies.
- While the balance of sheepskin supply is shifting to developing economies, sheepskin supply is expected to increase in the short-term from the EC.
- This is due to the likely effect that EC re-unification, and the reform of agricultural policies shall cause a shift of industry away from agriculture and into the livestock grazing industries.
- With the decline in the European leather production centres, production of sheepskin (and goatskin) leather has fallen sharply from 40% of global production to be less than 30%.
- The EC tanners of sheepskin leather have experienced a major decline in their domestic market, largely due to the recent sharp falls in local garment manufacturing, and the re-location of manufacturing to Turkey, India, Pakistan and Asia.
- The EC has compensated for the reduced domestic demand by increasing exports which has doubled to 9,000 tonnes between 1988 and 1992. Turkey's imports of sheepskin leather rose by over 300% between 1988 and 1992, while China, Hong Kong, Thailand and South Korea are the other major markets. South Korea imports over 30% of the EC's sheepskin leather exports.
- The sheepskin processing industry in Mazamet, France has been reduced to less than 8 active processors, and with the effects of the economic downturn and disruption to markets in Europe, many of the traditional markets have been lost.

WHAT ARE THE FRENCH SKIN TANNERS DOING TO SURVIVE?

- ▶ *Advocating protectionist Government industry policies.*
- ▶ *Taking upmarket routes to more expensive and highly specified leathers.*
- ▶ *Establishing closer ties with top designers in Europe, and responding more quickly to fashion changes with JIT manufacturing techniques.*
- ▶ *Companies such as Calmes in Graulhet are adopting a flexible approach by switching between finished and semi-finished leather and double-face, or trading in raw skins as the market may dictate.*
- ▶ *Spreading their risks by exporting to a more broader range of markets.*
- ▶ *Establishing joint-ventures with overseas companies. Both Usines du Rey, and Claude Bonnet in Mazamet have recently set up tanneries in China to export product to Europe, the US and SE Asia.*

- By contrast, the Italian industry has grown its exports of sheepskin leather from 85 million square feet in 1991 to 137 million square feet in 1992. Export destinations include South Korea and Turkey.
 - Despite rising costs, the Italian industry has maintained its market share in sheepskin leather products largely due to its expertise and reputation for design and quality of high quality shoes and handbags.
- The Spanish leather industry is under rationalisation pressures, and finished leather sheepskin production has been declining, while double-face production has maintained its market position.
 - Despite rationalisation of the industry to a few very large companies, exports of semi-finished skins and finished leather has increased by over 50% between 1987 and 1992.
- The UK leather industry has contracted sharply with finished leather production decreasing by over half between 1987 and 1991.
 - The major market uses for finished UK sheepskin leather are chamois, gloves and garments.
 - The tanned woolled sheepskin industry in the UK is re-emerging, and has a current capacity of some 500,000 skins per annum. The industry has grown through its focus upon technology, quality and aggressive marketing.

The EC member countries are no longer the dominant world sheepskin tanners. Turkey, South Korea and the Indian subcontinent have capitalised upon the opportunity to become significant tanners of sheepskins.

4.8 SAUDI ARABIA

The leather industry in Saudi Arabia is experiencing strong growth.

- The Government has been active in the development of a domestic leather industry through the establishment of Government owned abattoirs and a tannery.
- In total, there are some 13 plants located throughout Riyadh, Damman, Jeddah, Medina and Balar.
- The plants use domestically sourced materials especially from the live sheep trade with Australia, and also import skins from other Middle East areas and even China.
- The tanneries process cattle (and camel) hides, and sheep and goat skins.
- However the majority of the production is based on sheepskins, and the tanneries are producing crust and finished leathers for garments, shoes, gloves. An industry specialisation is developing in nappa and chamois leathers.

One tannery has a separate department for the processing of Australian merino skins, and another for New Zealand skins which are used for double-face leather jackets and car seat covers.

4.9 PAKISTAN

Leather and leathersgoods rank third in Pakistan's exports, and provides employment to more than 20,000 workers.

- The leather industry in Pakistan is the second largest foreign exchange earning industry in the manufacturing sector.
- The industry has experienced rapid growth to the stage where in 1992, there were 962 plants, of which 436 were tanneries, 191 were for garment and footwear manufacturing, and the other 60 were manufacturing leathersgoods.
- Despite the growth of the industry there is insufficient supplies of raw materials, and imports of hides and skins are increasing.
- The development of the leather industry has largely been associated with leather garments and footwear, however as of late there is a greater emphasis upon leathersgoods.
- The major competition for the industry is India, and while Pakistan is still a relatively cheap producer, the Government is supporting the efforts of value-added exporters with tax relief measures, a ban on exports of raw materials, and penalties for exports of finished leathers.

Pakistan represents a strategic opportunity for Australian sheepskins in the leather garments and leathersgoods markets.

4.10 TURKEY

The future of the Turkish leather industry will very much depend upon its ability to upgrade quality, the development of "designer" markets in the EC, and increased trading links with the former USSR.

- The Turkish leather industry has a history of over 500 years, and is a pre-eminent supplier of quality sheepskin leather garments (nappe and double-face).
- In 1992, Turkey supplied some 22% of leather garment imports to the EC, and has become the largest exporter of leather garments to the EC. By comparison, Turkey's exports of leather garments to the US and Japan has been declining since 1989.
- The demand from local leather product manufacturers has in general exceeded the capacity of local tanners. As a result there are large and significant imports of sheepskin raw materials from Australia, New Zealand, former USSR and the Middle East.
- The new leather industry of Tuzla is to be a major advance in the use of leather technologies and effluent control. Production in Tuzla was commissioned in 1993, and it is planned to house some 221 companies in an area covering 6.5 million square metres.
- The Turkish industry is in the enviable position of having strong and existing trading links with the EC and the Turkish republics of the former USSR. Turkey is now the leading supplier of leather garments to Europe.

Turkey is a major strategic market for Australian raw and processed sheepskins. The industry has good experience with Australian skins, and most importantly relatively good links into major European markets.

4.11 UNITED STATES

The US, and now the NAFTA market represents one of the largest consumer markets for leather products in the world.

- The US economy is slowly recovering, and with this recovery the leather industry is experiencing modest growth due to a stronger US dollar and increased exports.
- The US is the world's largest source of bovine hides, and sheepskins form a minor part of the industry, with some 15 sheepskin tanners in the industry.
- The majority of the tanning industry in general, focuses on footwear with approximately half of the exports destined for heavier weight footwear production.
- The US is the world's largest market for leather products with a population of over 250 million. With such a large consumer market, import penetration into the US continues to rise, especially in the footwear sector.
- As a result, the US remains a net importer of leather and leather products with a trade deficit of \$US12 billion in 1992.
- Despite this trade deficit, industry shipments of leather and leather products are increasing, and these exports are offsetting the negative effect of the import competition in other segments.

The growth market sectors include auto-upholstery, upholstery furniture-leather, leathersgoods and woolled sheepskin products.

4.12 MEXICO

Mexico is not a low cost manufacturing centre like China, and its future shall very much depend upon its ability to move into higher products, above the markets that China supply.

- The leather industry in Mexico is entering a new development phase as the industry is largely still based on smaller scale family and artisan industries.
- With the consummation of NAFTA, Mexico offers large opportunities for lower cost production for many US organisations. It also offers to develop as a potential market for US raw materials as the capacity of the leather industry expands.
- Internationally, Mexico represents a trade access opportunity into the North American market, and investment from both Asia and Europe is occurring into the industry. For example, China has established footwear manufacturing plants, and Europe has invested in the development of a chamois tannery.
- The domestic industry is largely based upon footwear products, but the new wave of investment shall result in a considerable diversification of products in the industry.

Chamois manufacture would appear to be one of the first sheepskin products into which Mexico has diversified.

5. INTERNATIONAL TRADE POLICIES

5.1 GENERAL

With the liberalisation of world trade under GATT, and the potential development of regional free trade areas, Australia needs to be aware of any potential ramifications.

- The successful conclusion of the Uruguay Round of GATT shall increase world trade and accelerate the process of farm reform in the US and especially the EC.
- With the creation of the North American Free Trade Agreement (NAFTA), sources doubt that Mexico's tanning and leather products industry shall have a significant impact on the international leather industry.
 - Mexico's wage costs are over six times those of China's, and therefore Mexico is precluded from competing in the cheaper segments of the US market.
 - It is unlikely that significant external tariffs shall be implemented to provide Mexico with a trade advantage into the US market. For Mexico to benefit from NAFTA in the leather sector, it will have to gain a competitive advantage by moving into upmarket products, and gaining superior market access through the development of free trade corporate relationships.
 - It is in this respect that NAFTA has been perceived as a threat, and as a result Mexico is attracting significant foreign investment, for its trade access opportunities.
- The European leather industry is forecast to experience a period of significant growth subject to the following developments in the re-unification of the European Community.
 - Once the Central and Eastern European economies re-establish their leather manufacturing industries (and there are signs that this is already occurring), there shall be a massive expansion of local tanning and leather products manufacture for the Western European market, especially as the industry takes advantage of its domestic or close supply of raw materials.
 - The other major development shall be the stabilisation of the former Soviet Union, and the opening of the market for leather trade. In this respect Turkey, and the emerging leather tanning industry of the Middle East are set to target this emerging market and compete with the EC.
- The potential for the Asia Pacific Economic Co-operation group to influence the leather products industry as yet is unclear.

5.2 TRADE TARIFFS FOR AUSTRALIAN SHEEPSKIN PRODUCTS

- The general view is that few countries levy import tariffs on raw materials, and this has been one of the key reasons that Australia has developed such a large raw sheepskin export trade.
- Thereafter, country import tariffs are generally escalated, and rise with the level of processing of the product. This is especially the case with many of the developing countries where import tariffs are generally higher at every level of processing, and are often accompanied by other charges and taxes. Exceptions to these tariffs and charges may occur however if the imported products are Export Orientated Units (EOU's) and are to be processed for re-export to another country.
- The international import tariffs for Australian sheepskin products is shown in Table 5.1.

In practical terms trade barriers do not appear to have limited the rapid expansion of international trade in finished leather or leather products. The locations of production in the world leather industry is influenced primarily by cost-competitiveness.

Table 5.1 International Import Tariffs For Australian Sheepskin Products

| COUNTRY | TARIFFS AND TAXES | | | | | | | | | |
|-----------|-------------------|-----------|------------------|----------------------------|--------------------|----------------------|-------------------|--------------|-----------------|--|
| | RAW SKIN | | TANNED WOOL OFF | | | | CHAMOIS | RAW FURSKINS | TANNED FURSKINS | TAXES |
| | WOOL /ON | WOOL /OFF | VEG PRE-TAN | OTHER PRE-TAN | PARCHMENTS DRESSED | OTHER THAN PARCHMENT | | | | |
| JAPAN | Free | Free | Free | Free | 7.5% | 60% | 25% | Free | 15% | 3% VAT/duty |
| KOREA | 3% | 3% | 5% | 5% | 5% | 5% | 5% | 3% | 5% | 10% VAT/duty, 2.5% Defence Tax |
| THAILAND | Free | Free | 5% or 1.40 Bt/Kg | 5-10% or 1.40 - 3.30 Bt/Kg | 10% or 3.30 Bt/Kg | - | 10% or 3.30 Bt/Kg | 30% | 50% | 7% GST/duty |
| INDONESIA | Free | Free | Free | Free | Free | Free | 20% | 15% | 20% | 10% VAT/duty |
| TAIWAN | Free | Free | Free | Free | 7.5% | 60% | 25% | Free | 15% | 5% VAT/duty, 0.5% Harbour Tax |
| INDIA | Free | Free | 60% | 60% | 60% | 60% | 60% | Free | 10% | 45% VAT/duty |
| EEC | Free | Free | 60% | 60% | 60% | 60% | 60% | Free | 10% | Belgium: 6-30% VAT/duty Luxembourg: 2/12% VAT/duty Netherlands: 6 - 18.5% VAT/duty France: 18.6 - 33.3% VAT/duty Spain: 6-33% VAT/duty UK: 17.5% VAT/duty |
| USA | Free | Free | 2.4% | 5% | 5% | 5% | 4.9% | Free | 2.4% - 5.3% | State VATS |

(Source: Austrade (1993))

5.3 INDUSTRY INVESTMENT

As the key issues affecting the competitiveness of the leather industry in the 1990's are a secure supply of quality raw materials and access to markets, Australia should qualify as an investment opportunity for raw or early stage processed raw materials.

- Most of the overseas investment that has occurred in the leather industry has taken place in Asia. Much of this investment has come from South Korea, Hong Kong, Taiwan and Japan in their quest to secure lower cost manufacturing facilities in Thailand, Indonesia and China.
- Australia has been the target for investment by Asia (eg, Japan, South Korea and China) primarily to secure the supply of sheepskins raw material.
- This overseas investment in Australia to secure a raw material source would appear set to continue as:
 - Demand for sheepskins is expected to exceed supply during the 1990's.
 - Fellmongering of skins in Australia has become cost-effective. It also makes more economic sense to transport higher value pickled pelts than raw skins of lower value.
 - Fellmongered skins from Australia can provide a superior quality pelt, than those skins which are fellmongered from salted and dried skins.
 - Australia has close proximity to a large consumer and manufacturing market in Asia.
 - The domestic industry has limited access to export finance resources as detailed in the recent McKinsey's report to the Australian Manufacturing Council.
 - Government finance and/or support is potentially available to facilitate investment in the Australian industry.
 - Such programs managed or administered by AUSTRADE include the Investment Promotion Program (IPP), Export Market Development Grants Scheme (EMDG), and the International Trade Enhancement Scheme (ITES).
 - In addition, the Textiles, Clothing and Footwear Development Authority (TCFDA) is responsible for the implementation of the Government's TCF Plan, and as a result oversees the technical and administrative changes to the import arrangements that affect the TCF industries. These arrangements include tariffs, tender quota, by-laws and tariff concessions, import credits and bounties. The Authority also administers the Industries Development Strategy (IDS) which includes the following programs:

- Incentives for International Competitiveness Program.
 - Infrastructure Support Program.
 - Capitalisation Grants Program.
 - Further Wool Processing Program.
 - Import Credit Scheme.
- Further details about these programs should be obtained directly from Austrade and the TCFDA, as these industry programs are subject to review and change.
- At present, world trade of processed skins other than pickled pelts (and raw skins), is relatively small.
- However, there appears to be an increasing investment focus on the potential to further process pickled pelts through to the wet blue stage. The reasons for this focus are:
- There is an increasing need to differentiate on the basis of the quality of the pelts, and this is more discernible at the wet blue stage.
 - Degreasing of Australian skins requires specialised skills and knowledge.
 - Unit manufacturing costs especially associated with effluent treatment are reduced.
- In the short term, the potential for investment in sheepskin leather tanneries in Australia would appear limited by:
 - The lack of a domestic manufacturing market demand.
 - While demand for sheepskin leather is large overseas, there is no shortage of tanneries overseas, but rather a shortage of raw materials.
 - There are no skills in Australia which provide a competitive advantage for sheepskin leather tanning.
 - Significant trade tariffs may exist for the tanned leather, if it is not for re-exported manufactures.
 - As outlined, above the focus on investment is upon confirming supplies of raw materials.

Investment is about dollars, but it is also about gaining access to raw materials, markets, technology and skills.

6. INTERNATIONAL MARKET OPPORTUNITIES

6.1 Strategic Review of the Australian Industry

The Australian sheepskin processing industry is at differing stages of development.

Figure 6.1 Development Stage Of Australian Sheepskin Processing

| Source | Product Development | Sourcing | Manufacturing Stage | | Head Office Marketing | Sales & Field Marketing | Delivery |
|-------------------------------------|---------------------|----------|---------------------|------|-----------------------|-------------------------|----------|
| | | | Early | Late | | | |
| Woolskin Processing | ● | ● | ● | ● | ● | ● | ● |
| Wool Off/ Fell-mongering Processing | ● | ● | ● | ● | ● | ● | ● |
| Raw Sheepskin Processing | ● | ● | ● | ● | ● | ● | ● |

Legend: ● Major Development ● Some Development ● Minor Development

Competitive advantage in the leather industry today depends upon more than costs, technology and quality.

Marketing strategies, proximity to customers, and a secure source of raw material supply shall prove to be crucial factors.

6.2 Strengths of the Australian Industry

- As there is a limited annual supply of world sheepskins, a major strength of the industry is the large quantity of raw sheep and lambskins which are available every year.

This fundamental strength should not be under-estimated as:

- ▶ *A secure supply of quality sheepskins shall become a major strategic advantage in the world leather industry.*
- ▶ *Sources have forecast that demand for sheepskins shall exceed supply during the 1990's.*
- ▶ *Developing countries control the major balance of supply of world sheepskins, but the high demand for skins by the local leather industries results in the need to import skins from developed countries.*

- There has been a significant geographic shift in the world's consumer and leather manufacturing markets. Australia has close proximity to these large and emerging consumer and leather processing markets in Asia.
 - The wool and the skin are relatively unique in the world, as merino wool is one of the world's finest wools, and the skins exhibit characteristics unique to the merino breed.
 - Australia has a well-developed raw skin export sector which has efficient market distribution channels. The industry however is in a state of contraction due largely to the current wool price crisis. This sector has nevertheless contributed revenues to Australia to the order of \$115 million in 1992, and \$99 million in 1991, and as such is a significant revenue earner for Australia.
- The wool-off or fellmongering processing sector is an emerging sector of the Australian industry. It is not as well-developed as the raw skin or tanned woolled sheepskin processing sectors, but strengths lie in:
 - An international market for Australian skins and pelt products has been developed as a result of the efforts of the Mazamet industry over the last 150 years.
 - The relative competitiveness of labour and processing costs with the traditional European fellmongering industry, and even some of the more advanced Asian countries such as Japan and Korea. Early stage processing costs are more capital intensive than the relatively more labour intensive finished product manufacturing stage, and as such Australia can be competitive.

- Australia fellmongers have developed fellmongering technologies uniquely suited to the processing of Australian skins.
- Australia is in close proximity to a large market for sheepskin leather products.
- The tanned Australian woolled sheepskin is unique in the world.
 - Australian merino wool is recognised as one of the premium fine wools in the world, and as an end-product, it represents a naturally attractive, healthy, soft to feel product.
 - The wool-on tanning sector is a relatively well developed sector, and is noteworthy in that it is an industry sector which processes a raw material completely through to the finished consumer product. Accordingly, the sector has an established infrastructure for processing, manufacture, distribution and marketing. This sector is currently experiencing considerable growth, and the industry is currently reviewing plans for expansion of capacity.
 - The wool-on tanning sector is a significant value-adding industry.
 - The local industry has a considerable amount of technical expertise in woolled sheepskin tanning, and has a mature outlook on the need for industry growth (more tanners), and maintenance of high quality standards.
- Australia's large resource of land and space provides the industry with the comparative advantage and opportunity to treat effluent. A number of processing plants have located in rural or "greenfield" sites, and subject to environmental legislation compliance have cost-effectively used traditional aeration ponds, or more recently developed technologies to cost-effectively treat the effluent.
- Australia has a large skin industry support infra-structure consisting of government and industry supported research organisations, and trade development groups.

6.3 Weakness of the Australian Industry

- For the majority of exported skins, Australia does not have a direct link to end-users, and therefore forfeits an understanding of the world consumer demand for sheepskin leather products.

▶ *Australian industry tends to be a price-taker rather than a price-setter as it is too far upstream in the processing chain to redress industry myths which downgrade the value of Australian skins. In addition, the culture in general in the Australian live-stock industry is that skins are industry by-products of little worth.*

▶ *As a result, Australian industry generally has not had the need to develop international marketing skills.*

- There are no major wool-off tanneries for sheep or lambskin in Australia, and in general there is limited expertise for the tanning of Australian sheep and lamb leather.
 - The fellmongering industry has a limited knowledge of the overseas markets, and a lack of international marketing channels into strategic markets.
 - The industry is relatively small, and a lack of industry capital is also limiting growth.
- The industry lacks an objective grading and quality assurance system for pickled pelts.
 - The absence of such systems are fundamental to the development of feedback, and the quality improvement of skins and pelts.
 - Indeed, many skins suffer damage both on the farm, and during dressing in abattoirs. Without reference to grading and quality assurance systems, there is limited opportunity for the recognition of quality improvements, and increased commercial returns.
- The Australian industry has traditionally relied upon the raw skin export sector for its revenue.
 - There are a number of factors which preclude skin packers from providing an optimum return on skins to the producer:
 - Local skin packers provide overseas fellmongers with a confirmed source of supply.
 - In general, skin packers gain the most economic return on skins which are of good quality and long wool length. The costs of drying and salting by the packer in Australia, and the cost of rehydrating or

washing the skins overseas prior to processing, is commercially viable due to the return on the wool and pelt.

- This situation however becomes commercially unacceptable when either animals are sent to the abattoirs "off-shears" (ie, with short-wool skins) or the market price of wool is low, as it is at present.
 - In these situations, short-wool skins are wasted as they are deemed to be of No Commercial Value (NCV), and are wasted through dumping.
 - The overseas fellmongers of the skin packers, generally pay for their skins on shipment and receive the skins some 4-8 weeks later. To allow for exchange rate fluctuations, and the interest costs associated with the transport of the skin stocks, prices offered for the skins would be minimised accordingly.
 - Skin prices are discounted to allow for reject material due to over-drying and/or cracking due to over packing.
 - As skin packers are unable to identify the final end-user customer for the exported skins, there is no feedback to Australian abattoirs or growers on the skin quality, or changing market requirements for the skins.
 - As many Australian skinpackers are owned or associated with overseas fellmongers (especially in Europe), the recent changes to the commercial viability of these fellmongers has reduced the demand for Australian skins by skin packers.
- Investment in the industry is usually lacking, as the majority of firms are traditionally of a family structure, and do not have access to corporate funding or the financial institutions sector.

6.4 Opportunities for the Australian Industry

- The development of a consumer orientation in the industry rather than a tannery or manufacturing orientation.
 - The Australian industry has traditionally focussed upon the next downstream processor as the customer, and indeed has relied upon this customer for market information.
 - This is valid, however as the world leather industry has become so dynamic, there is a strong need to have a first hand understanding of world trends for consumption of leather products.
 - High quality consumer and industrial research shall provide the industry with the basis for a competitive advantage.
- The development of consumer markets for sheepskin leather products which compete on value rather than price only.
 - Value should be based upon such parameters as:
 - Source and reliability of supply.
 - Grading and quality.
 - Value-based pricing.
 - Merino skin processing technology.
 - Product characteristics and design.
 - Presentation and packaging.
 - Integral to the value approach is the need to develop objective grading and quality assurance systems which encourage feedback and quality improvement. The minimisation of skin damage on the farm and in abattoirs is a major opportunity to increase the yield of skins, and therefore returns to the industry.
- Where practical, Australia should market direct to the world markets, and seek direct orders for sheepskin leather products from end users or consumers.
 - With orders in hand, the Australian industry can build upon its secure source of skin supply, and as appropriate outsource the processing or manufacture of the leather products.

In effect, this reverses the traditional role so that in this case Australia becomes the customer of the tanner or manufacturer.

- The development of a more diversified market base across the major consumer markets (North America, Europe and Asia), and the major manufacturing markets in developed and developing countries.
 - The recent rapid shifts in the location of leather product manufacturing, and the pace of change in the consumer markets (especially Asia) is a major reason for Australia to diversify its markets for sheepskin products.

- The development of "branding" in consumer markets of developed countries provides product recognition and brand/product loyalty.

Such consumers are more demanding of consistent quality-price relationships and value for money, and this assurance is seen to be associated with a brand label.
- Australia can provide customised products with a superior level of customer support.
 - With its proximity to emerging manufacturing and consumer markets in Asia, Australia can add value to its products with superior support services such as quick responses due to similar time zones, superior reliability and product technology and innovation.
 - Technical back-up support is a strategic opportunity for Australia to improve customer satisfaction, gain customer feedback, and indirectly improve demand for Australian sheepskin products.
- Support an issues management group to address common international and domestic issues for the Australian industry.
 - This group can assist with addressing industry issues such as Government policies, quality standards, environmental and effluent controls, technology transfer and market development.
- Develop Australian sheepskin leather product consumer markets for garments, footwear, gloves, leathersgoods, chamois and woolled sheepskins.
- Develop Australian sheepskin product manufacturing markets for slats, pickled pelts, wet blue pelts, unfinished and finished leather, and processed woolled sheepskins.
 - The further processing of pickled pelts through to wet blue is an opportunity as:
 - There is an increasing need to differentiate skins on the basis of quality, and this becomes most evident at the wet blue stage of processing.
 - Degreasing of Australian merino skins requires specialised skills and knowledge.
 - Unit manufacturing costs especially as associated with effluent treatment are reduced.
- While the woolled sheepskin tanning industry is relatively well-developed, there are several other opportunities for this sector of the industry:
 - As the Australian tanned woolled sheepskin product is unique in the world, there is the opportunity to both expand existing markets, and to penetrate new world markets.
 - A number of the new markets (eg China) represent the opportunity to develop new products based upon the merino sheep breed.
 - The efforts of the international animal welfare and anti-furskins lobby groups should enable the woolled sheepskin tanning industry to present itself as an alternate and acceptable source of furskin material.

- The Australian Government provides a wide range of industry support schemes which the industry should utilise as appropriate.
 - The major schemes relevant to the Australian sheepskin processing industry are administered by the Textiles, Clothing and Footwear Development Authority (TCFDA) and AUSTRADE. In particular the TCFDA's Import Credit Scheme can be of assistance for the support of further processing activities.

6.5 Threats to The Australian Industry

Threats to Australia may be interpreted as any factor or development which threatens the industry of its raw material supply, or its access to consumer world markets of sheepskin products.

- The current world wool price crisis is a threat as it pressures the industry to reduce the size of the Australian sheep population, and hence the potential size of the sheepskin resource.
- Competitive country supplies of sheepskins are also a threat in that it may reduce Australia's world market share of sheepskin leather products.
 - Currently Australia, New Zealand and Western Europe supply some 40% of the world production of sheepskins, however these countries account for over 60% of the traded skins.
 - It is estimated that increasingly the growth of traded skins or products shall occur from the developing economies of China, the former USSR and the Middle East. Such products may also include tanned woolled sheepskin products.
- Threats may also occur from competitive or alternate skin products to sheepskins. For example, goat skins may be used as "light leather" substitute material for sheepskin leather.
- The decline of sheepskin exports to Mazamet in France may have a number of adverse effects upon the Australian industry:
 - Reduce leather consumption opportunity in world consumer markets.
 - Reduced revenue for Australia and increased wastage/dumping of skins.
 - Loss of fellmongering skills for Australian skins.

The potential loss of processing skills is a major threat, especially should Australia choose to work with tanners and further processors in Asia.

Mazamet has developed over 100 years of processing experience with Australian skins, and this processing expertise and experience may be a significant limiting factor to the production of quality leather products from Australian skins.

6.6 Summary - Market Opportunities for the Australian Industry

| GENERAL MARKETING STRATEGIES | |
|-------------------------------------|--|
| G.1 | Support an Issues Management Group which can address common international and domestic issues for the Australian industry. |
| G.2 | Develop a strong service orientation so that Australian products are tailored to the customer's requirements. |
| G.3 | Develop a diversified market base across the major consumer markets (North America, Europe and Asia), and the major manufacturing markets in developed and developing countries. |
| G.4 | The Australian industry needs to be more consumer orientated rather than tannery or manufacturing orientated. |
| G.5 | Australian sheepskin products need to compete on value rather than price only. Value should be defined in terms of quality, service, innovation and price. |
| G.6 | Where practical, Australia should seek direct orders for sheepskin leather products from the consumer end of the processing chain, and add value to Australia's source of sheepskins supply. |
| G.7 | Develop a "branded" profile(s) for Australian sheepskin leather products for consumer markets in developed countries. |

| MARKETING STRATEGIES FOR CONSUMER MARKETS | MARKETING STRATEGIES FOR MANUFACTURING MARKETS |
|--|---|
| C.1 Garments | M.1 Slats |
| C.2 Footwear | M.2 Pickled Pelts |
| C.3 Gloves | M.3 Wet Blue Pelts |
| C.4 Leathergoods | M.4 Processed Woolled Sheepskins |
| C.5 Chamois | |
| C.6 Woolled Sheepskins | |

7. QUANTITATIVE ANALYSIS OF MARKET OPPORTUNITIES

An analysis of the potential market opportunities for processed and unprocessed sheepskin products has been conducted to quantify the expected benefits to the Australian sheepskin processing sector.

7.1 Overview to the Analysis

- The Meat Research Corporation's value-added chain model as developed by AACM (1993) for the RADIS study, has been used as the quantitative framework to assess the potential benefits which may be derived from identified international market opportunities for sheepskin products.

The model's approach is to describe and quantify all inputs, product transformations, outputs and value-added for the industry.

- The model represents the physical elements of the sheepskin processing sector by:
 - The stage of product conversion from raw material to consumer product.
 - The description and quantity of products brought forward from previous stages.
 - Materials and services brought into the chain from external sources.
 - The description and quantity of intermediate products passed forward to the next stage or end-user.
- The model represents the financial elements of the sheepskin processing sector by:
 - The value of products brought forward from previous stages.
 - The cost of materials and services purchased from outside the chain.
 - Revenue accruing from sales.
 - Processing costs.
- It is noted that the model was designed to be static in that it is unable to show the effect of changes to production on prices or costs. In this study, it is intended for use as a tool to gain an understanding of the industry at a point in time, and therefore should be used for relative rather than absolute comparisons.
- The analysis provides an estimate of the returns for potential end use market opportunities, relative to a "benchmark" of the Australian industry returns for exports in 1992.

7.2 Approach to the Analysis

- **Scenario 1 Value-Added Sheepskin Processing Chain as at 30 June 1992 excluding Wool Off Processing**
 - Amount of value-add for the industry for the year ending 30 June 1992, is defined using exactly the same product categories as the AACM model. The AACM product categories do not include wool off processing.
 - The amounts and prices for the product categories have been updated using published data from the Australian Bureau of Statistics (ABS) and the Australian Meat and Live-Stock Corporation (AMLC).
 - This amount of value-add for the sheepskin processing sector for the specific year of 1992 may then be compared relative to the industry average for the sector for the period 1987-1990 as modelled by AACM.
 - The 3 product categories defined for the AACM model are:
 - * Wool on tanned skins.
 - * Salted skins.
 - * Dried skins.
- **Scenario 2 Value-Added Sheepskin Processing Chain as at 30 June 1992 including Wool Off Processing**
 - Amount of value-add for the industry for the year ending 30 June 1992, is defined as per Scenario 1, but an additional product category of fellmongered/wool off processed skins (pickled and wet blue pelts) is introduced.
 - Quantity and price data for the wool off processed products have been sourced from the ABS.
 - This amount of value-add shall provide a relative indication of the additional value-added by the newly developing Australian wool off processing sector in 1992.
- **Scenario 3 Potential Value-Added Sheepskin Processing Chain for Identified Market Opportunities.**
 - Amount of potential value add for the industry is defined for an expanded range of potential product categories in response to identified market opportunities.
 - These product categories are:
 - 1.0 Wool off processed skins/Pickled Pelts
 - 1.1 Products from Slats
 - 1.2 Garment/Ribby nappe from Pickled Pelts
 - 1.3 Leathersgoods from Pickled Pelts
 - 1.4 Industrial gloves for Pickled Pelts
 - 1.5 Chamois from Pickled Pelts
 - 1.6 Garments from Wet Blue Pelts

2.0 Wool on processed skins

2.1 Rugs

2.2 Double face

2.3 Medical/Infant Care

2.4 Trimmings

2.5 Footwear

2.6 Car seat covers

3.0 Salted and dried skins

- This amount of value add shall provide a relative estimate of the amount of value add potentially available to the Australian sheepskin processing industry for the identified market opportunities.

- **Scenario 3(S) Sensitivity Analysis**

- A sensitivity analysis for Scenario 3 has been conducted to assess the impact of a 25% increase in purchasing costs and sales (excluding slipe wool product).
- As product sale prices have been conservatively estimated in Scenario 3, the sensitivity analysis also provides an indication of returns from a more optimistic pricing scenario.

Value-Add From Slipe Wool Product

- The amount of value realised from slipe wool is calculated simply on the basis of the number of skins fellingmongered under each scenario.
- It is assumed that on average there is 2 kilograms of wool per skin and the current average price is \$2.30 per kilogram.

7.3 Results

Table 7.1 below summarises the results of the analysis.

Table 7.1 Summary of Quantitative Analysis

| ITEM | SCENARIO 1 | SCENARIO 2 | SCENARIO 3 | SCENARIO 3(S) |
|---|------------|------------|------------|---------------|
| | \$M | \$M | \$M | \$M |
| Revenue - Pelt Products | 230.6 | 241.1 | 276.9 | 346.1 |
| Revenue - Skive Wool Product | Nil | 7.0 | 50.6 | 50.6 |
| Total Revenue | 230.6 | 248.1 | 327.5 | 396.7 |
| Value-Added - Pelt Products | 11.5 | 11.5 | 34.1 | 72.0 |
| Total Value Added - Pelt and Skive Wool | 11.5 | 18.5 | 84.7 | 122.6 |
| Industry Revenue Per Skin(*) | \$7.12 | \$7.66 | \$10.11 | \$12.24 |

(S) - Sensitivity analysis based upon 25% increase in purchasing costs and sales.

(*) - Based on an annual average slaughter of 32.4 million.

- Scenario 1

- Using current data, the model shows that as at 30 June 1992 the amount of value-add in the sheepskin processing industry is only \$11.5 million, which is much lower than the 1987-90 industry average of \$63 million as calculated by AACM.
- This result is not surprising considering the significant decline in wool and skin prices and export quantities of salted and dried skins in recent years.
- For example, for the year ending June 1992, 22.2 million dried or salted wool-on skins were exported from Australia as compared to 29.3 million for the year ending June 1990. Similarly, the export earnings from dried and salted skins between 1990 and 1992, has declined from \$180.9 million to \$115.8 million.
- Of significance, it is noted that as a result of the relative decline in this raw skin export trade, the wool-on tanning industry revenues of \$115 million have become very prominent in that it matches the \$115.6 million from the dried and salted skin export trade for 1992. (Refer Appendix 1)

- Scenario 2

- The model shows that the new and small wool-off processing sector in Australia has had a significant impact on the industry as at June 1992.

- Industry revenues have increased by almost \$18 million, and the amount of value-add has increased by over 60% as a result of the re-establishment of the fellmongering industry in Australia.
- **Scenario 3**
 - Scenario 3 demonstrates major potential benefits for the Australian industry.
 - The industry revenues are valued at some \$330 million, with a value-add or gross margin of some \$85 million.
 - By comparison the AACM industry average calculations (which are largely based upon raw skin exports), provide a relatively higher industry revenue of \$440 million but a lower value-add of \$64 million.
 - The Scenario 3 model also shows a significantly increased skin price of \$10.10, as compared to \$7.10 in the Scenario 1 (1992) situation.
- **Scenario 3(S)**
 - The sensitivity analysis indicates that the calculation of value-add is sensitive to increases in purchasing costs and sales. However, the analysis confirms that the variations are consistent with expectations, and are of the correct order of magnitude.
 - Accordingly, industry revenues approach \$400 million, with a value-add of \$123 million, and skin prices are to the order of \$12.30.

7.4 Discussion of Results

- **Increasing the Amount of Value-Add and Benefit for the Australian Industry**
 - The above results are important in that they differentiate between industry revenues and industry profit (value-add).
 - Clearly in past years, the revenues associated with the industry have been relatively large (over \$400 million), but low in margins due to the low value-added nature in the export skin trade. By comparison, this analysis shows that for a relatively smaller industry revenue, the profitability of the industry can be much larger, due to the increased value-adding in the industry, and the reflection of this in the resultant revenues per skin for the industry.
 - Scenario 3 describes a situation in which the Australian industry does not rely upon one sector (such as raw skin exports) for its revenues, but rather the existence of the 3 processing sectors of fellmongering/wool-off tanning, wool-on tanning and raw skin exports.
 - The operation and competition between these 3 processing sectors provides a favourable opportunity for the Australian sheepskin producer to gain the most appropriate return on the skin product. It also offers the most potential to capitalise upon changes in the international markets for wool and skin products.

How Accurate are the Results?

- The value-added chain model from the RADIS study is a tool for use as a quantitative framework to measure the relatively detailed changes that are occurring within the sheepskin processing industry.
- It is able to measure all inputs, processing costs and outputs in an integrated manner. In this study, it is noted that the outputs associated with slipe wool from fellmongering were treated separately, but this should in the future be integrated as a data calculation in the model.
- As with all empirical analyses, the findings are subject to some uncertainty. The uncertainties are essentially related to the estimates of market size or quantities of product. It is noted however, that the estimates have been conservatively defined on realistic market data, and the results are likely to be within 20% accuracy.
- When corroborated with published statistics and current market opportunities, the qualitative nature of the results are sound. The quantitative results may be less certain, but on a relative "order of magnitude" scale would appear to be correct.
- Obviously, the real test of the accuracy of the results shall be the calibration of the model and results at a future time in the development of the markets for Australian sheepskin products.

The results show that significant benefits can accrue to the Australian industry, and these benefits are defined in terms of industry revenues, industry value-add or margins, and average skin prices.

The results of the analysis indicate that:

- Both wool-on and wool-off further processing of sheepskin products in Australia adds significantly to the value of the Australian industry.
- There is the potential to increase the industry revenue from the current \$230 million, to between \$330 million and \$400 million.
- The margins or profitability associated with this increased industry revenue is to the order of between \$85 million and \$123 million.
- Average revenue per skin can be increased from the current \$7.10, to between \$10.10 and \$12.30, based on an average annual slaughter of 32.4 million head.

8. INTERNATIONAL MARKETING STRATEGIES

8.1 Overview

The objective of the marketing strategies is to improve the demand for Australian sheepskin products.

| GENERAL MARKETING STRATEGIES | |
|------------------------------|--|
| G.1 | Support an Issues Management Group which can address common international and domestic issues for the Australian industry. |
| G.2 | Develop a strong service orientation so that Australian products are tailored to the customer's requirements. |
| G.3 | Develop a diversified market base across the major consumer markets (North America, Europe and Asia), and the major manufacturing markets in developed and developing countries. |
| G.4 | The Australian industry needs to be more consumer orientated rather than tannery or manufacturing orientated. |
| G.5 | Australian sheepskin products need to compete on value rather than price only. Value should be defined in terms of quality, service, innovation and price. |
| G.6 | Where practical, Australia should seek direct orders for sheepskin leather products from the consumer end of the processing chain, and add value to Australia's source of sheepskins supply. |
| G.7 | Develop a "branded" profile(s) for Australian sheepskin leather products for consumer markets in developed countries. |

| MARKETING STRATEGIES FOR CONSUMER MARKETS | MARKETING STRATEGIES FOR MANUFACTURING MARKETS |
|---|--|
| C.1 Garments | M.1 Slats |
| C.2 Footwear | M.2 Pickled Pelts |
| C.3 Gloves | M.3 Wet Blue Pelts |
| C.4 Leathersgoods | M.4 Processed Woolled Sheepskins |
| C.5 Chamois | |
| C.6 Woolled Sheepskins | |

8.2 General Marketing Strategies

GENERAL MARKETING STRATEGIES

G.1 Support an Issues Management Group which can address common international and domestic issues for the Australian industry.

MARKETING ISSUES

Strengths

- The Australian sheepskin processing industry have a mature industry outlook on the need for industry standards.
- The industry is focussed on quality issues.

Weaknesses

- The wool off and woolled sheepskin processing sectors are at differing stages of development, and the issues vary accordingly.

Opportunities

- The Australian sheepskin industry is expected to enter a new phase of growth and development.
- Issues which may be addressed by the group include quality standards, sheepskin grading, research and development, environmental standards and public sector industry support.

Threats

- Competing interests groups in the Australian industry.

MARKETING STRATEGY

1. Form an Industry Advisory Group from the Meat Research Corporation's Sheepskins Key Program.
2. The Industry Advisory Group should liaise with other industry groups for the development of objectives and policies for such an Issues Management Group.

The Issues Management Group's agenda should include:

- Sheepskin grading systems.
- Quality control.
- Industry education.
- Technical support.
- Technical training.
- Market development.
- Government liaison.

GENERAL MARKETING STRATEGIES

G.2 Develop a strong service orientation so that Australian products are tailored to the customer's requirements.

MARKETING ISSUES

Strengths

- Australia is in close proximity to emerging markets such as Asia, and should be able to provide quick responses, superior reliability, technical support and product innovation.

Weaknesses

- Australia traditionally has had little feedback from overseas processors of Australian skins.
- Feedback to the grower has been weak.
- Pickled pelt customers are often supplied with a "run of grade", rather than product graded to customer specific requirements.

Opportunities

- The potential to value-add the sheepskin product with services, and further differentiate the product.
- Technical back-up support is a strategic opportunity for Australia to improve customer satisfaction, gain customer feedback, and indirectly improve demand for Australian sheepskin products.
- Grade product as appropriate to customer specifications.

Threats

- A negative industry culture which regards sheepskins as a low value commodity.

MARKETING STRATEGY

1. Sort and grade pickled pelt products as appropriate to customer specifications.

Australian industry suppliers should ensure that the supply of a "run of grade" of product is consistent with the customer's expectations.

2. Provide international customers with access to an Australian services support package including access to technical support and product development resources.
3. Encourage industry to conform to quality assurance programs.
4. Develop an industry escalation procedure for technical and trade difficulties which may be experienced by customers.
5. Pilot trial the services support package with selected manufacturers in Asia.

GENERAL MARKETING STRATEGIES

- G.3 Develop a diversified market base across the major consumer markets (North America, Europe and Asia), and the major manufacturing markets in developed and developing countries.**

MARKETING ISSUES

Strengths

- Australia has a source of sheepskins which have characteristics which are suitable for a broad range of sheepskin products.
- Australia has a demonstrated record of innovation for the development of a range of products using both tanned sheepskins leather and tanned woolled sheepskins.
- Australia has a large public sector export support infra-structure including product development research organisations, and trade development organisations.
- Australia is well recognised in developed country economies, and is gaining increasing recognition in the emerging market economies.

Weaknesses

- In general, Australia has insufficient links to the various consumer and manufacturing markets.
- Australia is distant from the North American and European consumer markets.

Opportunities

- The changing order in the world leather industry markets represents an opportunity for Australia to diversify its customer base.
- Australia is in close proximity to the Asian manufacturing and emerging consumer markets.

Threats

- Domestic leather product manufacturers with local sheepskin supplies shall pose a threat to Australia especially in the emerging Asian markets.

MARKETING STRATEGY

1. Plan and implement a 3-5 year communication strategy to promote the uses and quality attributes of Australian merino sheepskin products.

This strategy needs to target both consumer and trade groups, and increase the awareness of recent technical developments which have enhanced the value-added use of Australian merino sheepskins.

2. Participate in international trade development campaigns, including leather industry trade shows such as the Hong Kong and Paris Leather Fairs.
3. Utilise Government trade development resources such as AUSTRADE.
4. Develop reference product sites in the North American, European and Asian consumer markets by:
 - Implementing marketing strategies for specific finished products in specific consumer markets (Refer Section 8.3).
 - Implementing marketing strategies for specific semi-processed sheepskin products for specific manufacturing markets (Refer Section 8.4).

GENERAL MARKETING STRATEGIES

G.4 The Australian industry needs to be more consumer orientated rather than tannery or manufacturing orientated

MARKETING ISSUES

Strengths

- Australia is the largest world supplier of sheepskins from a developed country.
- This sheepskin resource shall become strategically more valuable, as forecasts indicate that skins demand is increasing at a greater rate than supply.
- Australian skins exhibit characteristics which are unique to the merino breed.

Weaknesses

- For the majority of exported skins, Australia does not have a direct link to end-users, and therefore forfeits an understanding of the world consumer demand for sheepskin leather products.
- Australian industry tends to be a price-taker rather than a price-setter as it is too far upstream in the processing chain to redress industry myths which downgrade the value of Australian skin.
- Markets have negative perceptions of Australian sheepskins due to past quality and processing issues.

Opportunities

- The recent pace of change in the consumer and manufacturing markets for leather presents the opportunity for Australia to establish links with the new emergent (and established) markets.
- Consumer demand for sheepskin leather is forecast to increase at a greater rate than supply, and as a result there is a developing surplus capacity in the number of tanneries in the world.
- Recent technical processing developments have addressed degreasing and other quality issues associated with the processing of Australian merino sheepskins.

Threats

- The shift in the balance of sheepskin supplies away from developed to developing countries threatens Australia's supply of quality skins, and hence world market share in sheepskin leather product markets.
- The domestic location of low wage cost manufacturers of sheepskin leather shall have a market access advantage to the emergence of large domestic (or neighbouring) consumer markets in developing countries.

MARKETING STRATEGY

- 1. Plan and implement regular consumer and industrial research plans in order that high quality market data can be provided to the Australian industry.**
- 2. Participate in syndicated market research programs.**

Quality data about consumer trends, and the factors contributing to the shifts in location of the leather manufacturing industry are a competitive advantage for the development of marketing plan

- 3. Plan and implement a 3-5 year communication strategy to promote the uses and quality attributes of Australian merino sheepskin products.**

This strategy needs to target both consumer and trade groups, and increase the awareness of recent technical developments which have enhanced the value-added use of Australian merino sheepskins.

GENERAL MARKETING STRATEGIES

G.5 Australian sheepskin products need to compete on value rather than price only.

MARKETING ISSUES

Strengths

- Australia has a confirmed source of supply which is inherently valuable as sheepskin demand is forecast to exceed supply.
- Australian skins (wool-on and wool-off) have qualities which exhibit unique and valuable characteristics.
- Australia has developed processing technologies which add value to sheepskins.
- Australian product designs have been proven to be innovative and attractive to consumer markets.

Weaknesses

- Australia does not have a sheepskin grading system which values the unique characteristics of the Australian sheepskins.
- There is a need for improved skin quality through better on-farm and off-farm (abattoir) management, and quality control during sheepskin processing.
- Many overseas processors of Australian merino skins experience difficulties with degreasing and further processing.

Opportunities

- Consumer demand for sheepskin leather products is relatively strong especially in the niche and semi-luxury markets.
- Emerging consumer markets shall increase this demand for both up-market and cheaper leather products.
- Accordingly, sheepskin leather tanneries and manufacturers have increased their demand for quality sheepskin raw materials.
- Australia has a relatively "clean and green" quality image in the world, and the unique characteristics of the sheepskin products should build upon this image.

Threats

- Developing countries have sheepskin resources with potentially comparable skin characteristics as the Australian skins.
- Developing countries shall potentially improve the recovery rates and quality of skin processing and manufacture, and may threaten Australia's market share of consumer and manufacturing markets.

MARKETING STRATEGY

1. Develop perceptions of value by promoting quality, service, innovation and price.
2. Improve quality by implementing a sheepskin grading system for all sheepskin processing stages in Australia, with a nomenclature which values the following sheepskin characteristics:
 - Skin size.
 - Weight ("lightness").
 - Colour.
 - Skin texture and rib patterns.
 - Wool length.
 - Wool grade.
 - Suitability rating for specific end-uses (This precludes the need to specify faults and rejects)
3. Implement an education program for improved on-farm and abattoir management of sheepskins, so as to minimise skin and pelt damage.
4. Implement a Quality Assurance Program for quality control in the processing of sheepskins.
5. Provide a service to customers which include:
 - "Clean and Green" product quality assurance.
 - Technical processing back-up support.
 - Processing technology developments.
 - Innovations for product development in response to market changes.
6. Market products based upon value-based pricing (Appendix 2).

GENERAL MARKETING STRATEGY

G.6 Where practical, Australia should seek direct orders for sheepskin leather products from the consumer end of the processing chain, and add value to Australia's source of sheepskin supply.

MARKETING ISSUES

Strengths

- Australia has strengths in its sheepskin resources, and processing technology and design resources available to the industry.
- Recent changes and developments in consumer markets provides the Australia with a "greenfield" market.

Weaknesses

- Australia in general has insufficient links to the consumer end of the processing chain.
- Australia has no major wool-off tanneries for sheepskins.

Opportunities

- A secure source of skins supply, and market orders would enable Australia to outsource the processing and manufacture of sheepskin products.
- The amount of tannery capacity (especially in Asia), is growing at a faster rate than sheepskin supplies.
- In this situation, the traditional supplier role of Australia is reversed, and Australia becomes the customer for the tanner or manufacturer.

Threats

- Competitive country suppliers of sheepskins, and manufactured sheepskin products who are marketing to these emerging and established consumer markets.

MARKETING STRATEGY

1. Work with overseas distributors, retailers and designers who are able to gain a commercial advantage from having access to Australia's secure source of sheepskin supply, skin processing technology and product design resources.
2. Pilot trial this process through a targeted trade mission forum to Asia or North America.

GENERAL MARKETING STRATEGIES

G.7 Develop a "branded" profile(s) for Australian sheepskin leather products for consumer markets in developed countries.

MARKETING ISSUES

Strengths

- Australia as a country has a number of international attractions and images, including a "clean and green" environment.
- Australia has an internationally "recognisable" rural sector, especially for the production of fine wool and sheep.

Weaknesses

- Many quality Australian sheepskin products enter consumer markets without recognition of the Australian origin. Indeed, the products may be reputed to be of another country's origin.
- Branding is a costly development process.

Opportunities

- World consumer markets in developed countries are generally highly receptive of Australian "rural" products.
- Australia has the opportunity to build on the experience of the industry as associated with the International Wool Secretariat's "wool logo".

Threats

- Consumer markets in developed countries are very commercially competitive and volatile especially in niche markets .

MARKETING STRATEGY

1. Target a developed country consumer market which has an "affinity" for the Australian rural industry.
2. Develop an Australian industry "Merino" sheepskin logo, which can be used by retailers (not manufacturers) to designate that the finished product has been made from genuine Australian sheepskins.

This is not a "Made in Australia" logo, but rather aims to establish consumer loyalty to the Australian sheepskin.

3. Pilot trial the logo with selected retailers in a consumer market.

International use of the logo would be managed by the Australian industry.

8.3 Selected Marketing Strategies For Consumer Markets

MARKETING STRATEGIES FOR CONSUMER MARKETS

STRATEGY C.1 - GARMENTS

MARKETING ISSUES

Strengths

- Sheep and lambskins are often used for garments as the skins are lighter and more supple.
- The current trends for garments is for lightweight products.
- International markets are beginning to make commercial use of Australian sheepskins for leather coats, both wool on and wool off.

Weaknesses

- With the exception of tanned woolled skins, the international consumer markets are not familiar with tanned Australian sheepskin leather garments.
- This is largely the result of resistance from "traditional" tanners and manufacturers due to perceived processing difficulties.

Opportunities

- Consumer markets in developed countries are growing, and despite fashion trends, market differentiated and quality garments are in demand.
- Large consumer markets are developing in the emerging economies.

Threats

- Demand for garments can be volatile due to the influence of fashion trends.

MARKETING STRATEGY

- 1.0 Conduct a pilot product design trial in Europe and/or North America.
 - 1.1 For both wool off and woolled sheepskins, establish relationships with high profile fashion designers/fashion houses in Europe and North America, to develop designs that use or incorporate Australian sheepskins.
 - 1.2 For the European market, strategic manufacturing alliances may need to be established with garment manufacturers in Italy, France or Turkey.
 - 1.3 For the North American market, strategic manufacturing alliances may need to be established with garment manufacturers in South Korea.
- 2.0 These designs should be launched on to the international catwalks as an "Australian Collection", and the success marketed to other consumer markets, such as Asia.

MARKETING ISSUES

Strengths

- Australia's source of supply of sheepskins must represent an opportunity for leather footwear manufacturers to use an alternative leather for shoe uppers.
- Australia has a technical resource to support product development.

Weaknesses

- Sheepskin leather is not an accepted product for use in shoe uppers.

Opportunities

- Footwear is the world's largest leather market, and demand for leather footwear is forecast to grow by an average of 5% per annum during the 1990's.
- The largest share of this growth in demand is expected from Asian economies as their standards of living improve.
- Retail markets for footwear are becoming highly segmented into high and lower quality products.
- Manufacturers of leather footwear are seeking to develop products for both markets.
- Manufacturers are also seeking to use differing types and qualities of leather as the price of traditional cattle hide is expected to increase.
- Demand for footwear leather is especially strong from China.

Threats

- Competitive skins from both local sheepskin supplies, and other skins such as goat.

MARKETING STRATEGY

- 1.0 Conduct a pilot product development and test market trial in Asia.**
 - 1.1 Conduct a pilot product development trial for the development of lower cost leather shoes or work boots for consumption by the Asian markets.**
 - 1.2 Qualify organisations in the footwear manufacturing industry in China which shall gain a commercial advantage from using sheepskins in footwear uppers.**
 - 1.3 Provide sheepskin pickled pelts as test product for tanning, and manufacturing into footwear uppers in China.**
 - 1.4 It is recommended that Australia also provide technical assistance in China for the processing of the pickled pelts.**
 - 1.5 Test market the product in both the China domestic market, and other Asian markets.**
 - 1.6 As appropriate, market the results to other Asian footwear manufacturing countries such as Indonesia and Thailand.**
- 2.0 Encourage and support other product development strategies for the use of Australian sheepskin leathers, especially tanned short woolled sheepskins in colder climate emerging economies such as the former USSR.**

STRATEGY C.3 - GLOVES

MARKETING ISSUES

Strengths

- Australian sheepskin pickled pelts are currently used for the manufacture of industrial work gloves in the US.
- Australia is potentially able to supply a better quality pickled pelt.

Weaknesses

- The pickled pelts have traditionally been supplied from Mazamet in France.

Opportunities

- While the leather glove market has a number of different segments, industrial work gloves for manufacturing industries in developed countries is a significant opportunity.
- Gloving leather tanners in the US are claiming that they have insufficient supplies of Australian pickled pelts.

Threats

- Pickled pelt suppliers from other countries.

MARKETING STRATEGY

1.0 Conduct a pilot test supply trial in the US.

1.1 Identify major American glove leather tanners/manufacturers who shall gain a commercial advantage from the use of Australian pickled pelts.

1.2 Develop a strategic alliance with a glove leather tanner(s) to:

- Undertake to specify and trial a sample of Australian processed pickled pelts for the manufacture of gloving leather.
- Provide direct market links to glove manufacturers so as to facilitate product quality feedback.
- Assist with retail test market development trials of the industrial work gloves made from Australian skins, with an emphasis upon:
 - * Product branding.
 - * Product pricing eg, profit versus gross margin pricing.
 - * Positioning against competitive products.
 - * Product quality and improvement.
 - * Customer/product service support requirements.
 - * Issues management strategy.

2.0 Market the test trial results to other glove manufacturers such as China.

STRATEGY C.4 - LEATHERGOODS

MARKETING ISSUES

Strengths

- Australian skins have a diverse range of characteristics suitable for leathersgoods.
- Leathersgoods are currently manufactured from Australian sheepskins and commercially marketed with emphasis upon the exotic "ribbiness" texture of the leather.
- Initial feedback from overseas leathersgoods leather tanners has confirmed the suitability of Australian sheepskins.

Weaknesses

- Market development to date has been limited and mainly confined to Australia.
- The Australian sheepskin leathersgoods product is generally unknown in international markets.

Opportunities

- To capitalise upon the growing market demand for leathersgoods.
- Opportunity to develop branded and unbranded products.
- Build on the success of domestic product development trials.

Threats

- Leathersgoods may be subject to the volatility of fashion trends.

MARKETING STRATEGY

- 1.0 Conduct a pilot test marketing trial in international consumer markets.
 - 1.1 Identify Australian (or overseas) leathersgoods manufacturers who can gain a commercial advantage from the use of Australian sheepskins and who have an international distribution/sales infrastructure.
 - 1.2 Qualify tanners in China, India, Taiwan or South Korea who under contract to the Australian leathersgoods manufacturer, may be able to tan Australian pickled pelts into leather for leathersgoods use.
 - 1.3 As appropriate, conduct technology transfer of Australian sheepskin tanning technology to the Asian tanners.
 - 1.4 With the leathersgoods manufacturer, conduct a test market development trial, with an emphasis upon:
 - * Product branding.
 - * Product pricing eg, profit versus gross margin pricing.
 - * Positioning against competitive products.
 - * Product quality and improvement.
 - * Customer/product service support requirements.
 - * Issues management strategy.
- 2.0 Market the test trial results as appropriate.

MARKETING ISSUES

Strengths

- Australia has a large supply of skins suitable for use as chamois.
- Major chamois tanners have proven the efficacy of the Australian skin product.
- Australian skins provide processing advantages for chamois tanners as there is no skiver leather by-product from the frizing process.
- The chamois tanning technology using Australian skins is well proven in Europe.

Weaknesses

- Markets have not been sufficiently developed to appreciate the qualities of chamois made from Australian skins.
- Australian wool-off industry does not have trade development experience in major retail markets.

Opportunities

- To capitalise on world market demand for chamois leather.
- Develop the market for a range of grades of Australian chamois leather.
- Leather linings and skiver leather markets are in decline.
- Establish a "cash-flow" product opportunity for Australian fellmongers.
- Development of a chamois tanning industry in Australia.

Threats

- Creation of adverse perceptions of the Australian product from competitive suppliers.
- Trade barriers due to competitive positioning of synthetic chamois product.
- Other countries/chamois leather tanners corrupt the markets for Australian chamois leather.

MARKETING STRATEGY

1.0 Conduct a pilot test market trial in a major market such as USA.

1.1 Identify major European chamois tanners/manufacturers who shall gain a commercial advantage from the use of Australian pickled pelts or slats.

1.2 Develop a strategic alliance with a established chamois tanner(s) to:

Provide direct market links to retail chains, rather than indirectly through distributors.

Assist with retail test market development trials of Australian chamois, with an emphasis upon:

- * Product branding.
- * Product pricing eg, profit versus gross margin pricing.
- * Positioning against competitive chamois leathers and synthetic chamois products.
- * Product quality and improvement.
- * Customer/product service support requirements.
- * Issues management strategy.

1.3 Market the test trial results to the European market.

2.0 Commercial manufacture and supply

2.1 Supply of Australian pickled pelts or slats to major overseas chamois tanners.

2.2 Manufacture and supply chamois made from Australian pickled pelts and/or slats.

2.3 Introduce a quality assurance program for the supply of quality graded pelts or slats to ensure conformance to chamois production specifications.

3.0 Review the investment opportunity for chamois tanning in Australia for overseas chamois tanners.

3.1 Conduct investment studies for the feasibility of manufacturing unfinished, and finished chamois leather in Australia. This may be conducted with support from the Australian Government's Investment Promotion Program (IPP).

MARKETING ISSUES

Strengths

- The woolled sheepskin industry is relatively well developed in a wide range of products.
- The industry has a well developed manufacturing, and sales and marketing infrastructure.
- The industry is quality orientated.

Weaknesses

- Some product specific markets require further development.
- The international markets do not fully appreciate the products for their healthy, natural and insular qualities.

Opportunities

- The further development of the "medical skin" market is a strategic opportunity for the industry, as success in this market would promote the "healthy and natural" attributes of the product.
- The industry has the opportunity for new product development and market diversification with the emerging Asian consumer markets.

Threats

- The Australian industry shall face increasing international market competition from low wage cost countries such as China and India.

MARKETING STRATEGY

- 1.0 Conduct a pilot test market trial for medical sheepskins in the US.
 - 1.1 Identify major organisations which can add value to marketing of medical sheepskins in the American health system. eg Major hospital bed suppliers.
 - 1.2 Develop a strategic alliance with these organisations to assist with market development trials of Australian medical sheepskins in hospitals and the home care market, with an emphasis upon:
 - * Product branding.
 - * Product pricing eg, profit versus gross margin pricing.
 - * Positioning against competitive products.
 - * Product quality and improvement.
 - * Customer/product service support requirements.
 - * Issues management strategy.
 - 1.3 Market the test trial results to Japan.
- 2.0 Conduct a generic marketing program in the US and Japan to promote the natural health qualities of woolled sheepskin products.

8.4 Selected Marketing Strategies For Manufacturing Markets

MARKETING STRATEGIES FOR MANUFACTURING MARKETS

STRATEGY M.1 - SLATS

MARKETING ISSUES

Strengths

- Slats may be a cost-effective skin product where:
 - Residual wool after fellmongering is acceptable in further processing.
 - Pickled preservation of the pelt is not desirable or required in further processing.
- Raw Australian sheepskins have previously been processed into slats for use in the manufacture of chamois.

Weaknesses

- Slats are not a commonly traded sheepskin product.
- Prices for slats are less than further processed products (such as pickled pelts) and as a result unit processing costs are relatively higher.

Opportunities

- Slats are suitable for products which require a splitting or frizing process.
- Slats offer potential quality advantages for further processing especially where markets are in close proximity.

Threats

- Poor handling and delayed use of the product for further processing can jeopardise the integrity of the product.

MARKETING STRATEGY

- 1.0 Conduct slat product development tests in conjunction with the Chamois marketing strategy for consumer markets (Strategy C.5).
 - 1.1 The frizing process shall remove residual wool remaining after the fellmongering process.
 - 1.2 The chamois trials shall determine the efficacy of the slat product to produce commercially acceptable chamois.
- 2.0 Conduct other product development trials for the use of slats.

MARKETING ISSUES

Strengths

- A commonly traded and market acceptable product.
- A stable semi-processed sheepskin product acceptable for further processing.

Weaknesses

- The Australian industry is relatively inexperienced in the marketing of pickled pelts.
- There are perceptions in the international markets that Australian processed pickled pelts are not of the same quality and colour as pelts processed in Mazamet.
- Australia needs a pelt grading system that values the characteristics of the Australian skins, and at the same time, recognises the tanners needs.
- There appears to be a lack of expertise in the further processing of Australian pickled pelts in Asia.

Opportunities

- Implement a quality accreditation program for the processing of pickled pelts.
- Development of a pickled pelt grading system for Australian sheepskins.
- Improve presentation and packaging of pickled pelts.
- Provide technical support to Asian tanners using Australian pelts.

Threats

- Pickled pelt products from emerging sheepskin supplier countries such as China and the former USSR.

MARKETING STRATEGY

- 1.0 Implement a quality assurance program for the processing of pickled pelts.
 - 1.1 Accreditation under this Australian program can be used as a marketing tool.
- 2.0 Develop a pickled pelt grading system which values the characteristics of the Australian sheepskin.
 - 2.1 As the markets for sheepskin are differentiating into high and lower quality skins, there is a need to sort and grade pelts to the specifications of further processors.
 - 2.2 The practice of providing an ungraded "run" of pickled pelts is becoming a "disservice" to the tanner, and downgrades the price returns.
- 3.0 Improve presentation and packaging of pickled pelts.
 - 3.1 Presentation and packaging are an important marketing aspect for pickled pelts.
 - 3.2 Pelts need to be packaged in a clean and secure format.

As a minimum the pelts should be folded grain in, in half or full dozen lots, square packed onto pallets with a waterproof cover on the base, and covered with a waterproof heat reflecting cover.
- 4.0 Quality improvement trials.
 - 4.1 Anecdotal comments have been made that Australian pickled pelts are not as "white" and therefore "not as appealing to the eye", as Australian pelts processed in Mazamet.
 - 4.2 Trials should be conducted to confirm tannage results differences between Australian processed and Mazamet processed pelts.

Access to the transfer of technology skills from Mazamet is available to Australia.
- 5.0 Ensure the availability of technical support for further processing of Australian pickled pelts in Asia.
 - 5.1 To underwrite the efficacy of the Australian pickled pelts, Australia should provide access to a technical resource within Australia which can address technical processing (eg, degreasing) and product development issues for the Asian market.

MARKETING ISSUES

Strengths

- Wet blue pelts are better able to differentiate skin qualities.
- Australia has the ability to manage effluent control due to the potential rural location of processing plants.
- Unit manufacturing costs especially as associated with effluent control are reduced.

Weaknesses

- In finishing skins from wet blue, there is less scope for tanners in high wage countries to reduce costs through technology or scale of production.
- Wet blueing narrows the window of market opportunity as products which use vegetable tans are unable to be processed from wet blue skins.

Opportunities

- Supply of high quality pelts to manufacturers in developed markets.
- Supply of wet blue pelts to the more developed manufacturing centres in Asia such as South Korea, Thailand and China. These centres are often more focussed on product leather finishing and leather product manufacture.
- Quality wet blue bovine or cattle hides are reducing in supply relative to demand, and bovine tanneries shall be forced to look for alternate qualities of hides and possibly sheepskins, or reduce there tanning capacity.

Threats

- Local sheepskin supply competition.

MARKETING STRATEGY

- 1.0 Conduct R&D trials for the processing of pickled pelts to wet blue.
 - 1.1 Identify an Australian fellmonger who shall gain a commercial advantage from the further processing of Australian pickled pelts.
 - 1.2 Develop a strategic alliance with an Australian bovine tanner(s) to trial tan the wet blue pelts and provide feedback on:
 - * Product quality and improvement.
 - * Customer/product service support requirements.
 - * Issues management strategy.
- 2.0 Support Australian bovine tanners to conduct feasibility studies for the further processing Australian sheepskin pickled pelts.
- 3.0 Review the results and assess the potential benefits for conducting similar trials with Asian tanners.

MARKETING STRATEGIES FOR MANUFACTURING MARKETS

STRATEGY M.4 - SEMI-PROCESSED AND PROCESSED WOOLLED SHEEPSKINS

MARKETING ISSUES

Strengths

- As for Strategy C.6

Weaknesses

- As for Strategy C.6

Opportunities

- The opportunity for the industry is to gain market access in the emerging Asian markets.
- Establishment of a "quality" segment of the market for woolled sheepskins in the emerging Asian markets.

Threats

- The European industry is exporting semi-finished woolled sheep and lamb skins to Asia for the purpose of gaining market access and share.
- Asian supplies of woolled sheepskins shall emerge as competition.

MARKETING STRATEGY

- 1.0 Conduct a woolled sheepskin product promotion program throughout the emerging markets of Asia.
 - 1.1 Target strategic Asian markets, and conduct an Australian woolled sheepskin product promotion program in order to promote the natural health aspects of the products.
- 2.0 Support the development of Asian joint ventures to develop market access for Australian woolled sheepskin products.
 - 2.1 Such efforts may qualify for support from AUSTRADE under trade development programs such as the Export Market Development Grant scheme (EMDG), or the International Trade Enhancement Scheme (ITES).

9. APPENDICES

Appendix 1 Estimated Quantitative Benefit of the Market Opportunities

SHEEP TANNERY

WOOL ON – 'UNPROCESSED'

| CATEGORY | UNIT | UNIT VALUE | QTY. b/ | TOTAL VALUE |
|----------------------------------|------------|---------------|---------|----------------|
| INPUTS | | | | |
| FROM OTHER SECTORS: | | | | |
| 1. RAW SKINS – LAMB | '000 SKINS | 3.90 | 15742 | 61394 |
| 2. RAW SKINS – SHEEP | '000 SKINS | 3.60 | 17718 | 63785 |
| SUB TOTAL | | | 33460 | 125179 |
| FROM EXTERNAL SOURCES: | | | | |
| 1. PROCESSING | \$/SKIN | 0.61 | 33460 | 20418 |
| 2. SHIPPING | \$/SKIN | 0.30 | 33460 | 9940 |
| 3. COMMISSION | \$/SKIN | 0.24 | 33460 | 8060 |
| 4. FREIGHT & HANDLING | \$/SKIN | 0.21 | 33460 | 6985 |
| 5. PACKAGING | \$/SKIN | 0.02 | 33460 | 672 |
| 6. LABOUR | \$/SKIN | 1.18 | 33460 | 39492 |
| 7. OVERHEADS | | | | 8334 |
| SUB TOTAL | | | | 93900 |
| TOTAL INPUTS | | | | 219079 |
| OUTPUTS | | | | |
| TO OTHER SECTORS: | | | | |
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |
| 7. | | | | |
| SUB TOTAL | | | 0.0 | 0.0 |
| TO EXTERNAL DESTINATIONS: | | | | |
| 1. WOOL ON TANNED | \$/SKIN | 34.70 | 3315 | 115018 |
| 2. SALTED | \$/SKIN | 5.19 | 22272 | 115592 |
| SUB TOTAL | | | 25587 | 230610 |
| TOTAL OUTPUTS | | | | 230610 |
| VALUE ADDED | | | | 1 531 |

a/ ALL VALUES IN \$'000

SHEEP TANNERY

WOOL ON & WOOL OFF – 'UNPROCESSED'

| CATEGORY | UNIT | UNIT VALUE | QTY W/ | TOTAL VALUE |
|----------------------------------|------------|------------|--------|---------------|
| INPUTS | | | | |
| FROM OTHER SECTORS: | | | | |
| 1. RAW SKINS – LAMB | '000 SKINS | 3.90 | 15742 | 61394 |
| 2. RAW SKINS – SHEEP | '000 SKINS | 3.60 | 17718 | 63785 |
| SUB TOTAL | | | 33460 | 125179 |
| FROM EXTERNAL SOURCES: | | | | |
| 1. PROCESSING | \$/SKIN | 0.68 | 33460 | 22697.00825 |
| 2. SHIPPING | \$/SKIN | 0.33 | 33460 | 11049.85928 |
| 3. COMMISSION | \$/SKIN | 0.27 | 33460 | 8959.345362 |
| 4. FREIGHT & HANDLING | \$/SKIN | 0.23 | 33460 | 7764.765981 |
| 5. PACKAGING | \$/SKIN | 0.02 | 33460 | 746.6121135 |
| 6. LABOUR | \$/SKIN | 1.31 | 33460 | 43900.79227 |
| 7. OVERHEADS | | | | 9264.148753 |
| SUB TOTAL | | | | 104383 |
| TOTAL INPUTS | | | | 229561 |
| OUTPUTS | | | | |
| TO OTHER SECTORS: | | | | |
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |
| 7. | | | | |
| SUB TOTAL | | | 0.0 | 0.0 |
| TO EXTERNAL DESTINATIONS: | | | | |
| 1. WOOL ON TANNED | \$/SKIN | 34.70 | 3315 | 115018 |
| 2. SALTED | \$/SKIN | 5.19 | 22272 | 115592 |
| 3. WOOL OFF | | | | |
| 3.1 PICKLED PELT | \$/SKIN | 3.84 | 548 | 2104 |
| 3.2 WET BLUE | \$/SKIN | 6.5 | 977 | 6351 |
| 4. OTHER | | | | 2024 |
| SUB TOTAL | | | 27112 | 241088 |
| TOTAL OUTPUTS | | | | 241088 |
| VALUE ADDED | | | | 11527 |

a/ ALL VALUES IN \$'000

SHEEP TANNERY

WOOL ON & WOOL OFF - 'PROCESSED'

| CATEGORY | UNIT | UNIT VALUE | QTY. b/ | TOTAL VALUE |
|----------------------------------|------------|------------|---------|---------------|
| INPUTS | | | | |
| FROM OTHER SECTORS: | | | | |
| 1. RAW SKINS-LAMB | '000 SKINS | 3.90 | 15742 | 61394 |
| 2. RAW SKINS-SHEEP | '000 SKINS | 3.60 | 17718 | 63795 |
| SUB TOTAL | | | 33460 | 125179 |
| FROM EXTERNAL SOURCES: | | | | |
| 1. PROCESSING | \$/SKIN | 0.76 | 33460 | 25574.14 |
| 2. SHIPPING | \$/SKIN | 0.37 | 33460 | 12450.57 |
| 3. COMMISSION | \$/SKIN | 0.30 | 33460 | 10095.06 |
| 4. FREIGHT & HANDLING | \$/SKIN | 0.26 | 33460 | 8749.05 |
| 5. PACKAGING | \$/SKIN | 0.03 | 33460 | 841.25 |
| 6. LABOUR | \$/SKIN | 1.48 | 33460 | 49465.78 |
| 7. OVERHEADS | | | | 10438.50 |
| SUB TOTAL | | | | 117614 |
| TOTAL INPUTS: | | | | 242793 |
| OUTPUTS | | | | |
| TO OTHER SECTORS: | | | | |
| 1. | | | | |
| 2. | | | | |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |
| 7. | | | | |
| SUB TOTAL | | | 0.0 | 0.0 |
| TO EXTERNAL DESTINATIONS: | | | | |
| 1. WOOL OFF | | | | |
| 1.1 SLATS | \$/PELT | 2.50 | 500 | 1250.00 |
| 1.2 GARMENT/RIBBY NAPPE | \$/PELT | 5.50 | 1000 | 5500.00 |
| 1.3 LEATHER GOODS | \$/PELT | 5.00 | 500 | 2500.00 |
| 1.4 INDUSTRIAL GLOVES | \$/PELT | 4.00 | 500 | 2000.00 |
| 1.5 CHAMOIS | \$/PELT | 1.50 | 7000 | 10500.00 |
| 1.6 WET BLUE | \$/PELT | 6.50 | 1500 | 9750.00 |
| 2. WOOL ON | | | | |
| 2.1 RUGS | \$/SKIN | 32.00 | 750 | 24000.00 |
| 2.2 DOUBLE FACE | \$/SKIN | 50.00 | 500 | 25000.00 |
| 2.3 MEDICAL/INFANT CARE | \$/SKIN | 38.00 | 2000 | 76000.00 |
| 2.4 TRIMMINGS | \$/SKIN | 48.00 | 500 | 24000.00 |
| 2.5 FOOTWEAR | \$/SKIN | 31.00 | 1000 | 31000.00 |
| 2.6 CAR SEAT COVERS | \$/SKIN | 34.00 | 600 | 20400.00 |
| 3 DRIED | \$/SKIN | 3.75 | 12000 | 45000.00 |
| SUB TOTAL | | | 28350 | 276900 |
| TOTAL OUTPUTS | | | | 276900 |
| VALUE ADDED | | | | 34107 |

a/ ALL VALUES IN \$'000

Appendix 2 Value-Based Pricing

- Pricing should be based upon value-based pricing and marketing.
- The traditional method of pricing is based upon the gross-margin concept- increasing the purchase price by a standard percentage mark-up.
- There are two major adverse impacts of gross-margin pricing:
 - Any increase in wholesale price (or other cost elements) is further magnified at the retail level by the application of the "standard" percentage mark-up. This "additional" mark-up is often unwarranted as wholesale price increases do not necessarily increase retail cost or overheads, and in many cases may actually reduce in-store costs through such things reduced labour and packaging costs due to merchandising improvements .
 - As value-added products are typically priced higher when purchased by the retailer, they are uncompetitive with traditional competitive items as gross margin pricing often increases price to an unacceptable level for consumers.
- By comparison, a "Dollar per article unit" pricing system uses a "profit objective", and is a value-based pricing system.
- With this system a supplier works in close association with a retailer to define a "target" profit objective for an article, and the retail and wholesale prices are set accordingly.
- This results in generally lower retail prices, with overall profit being increased through increased product movement or stock turnover. Moreover, value-added products are priced more competitively compared to traditional competitive/commodity products.
- For a value-based pricing system to be successful there is a pre-requisite need for a close relationship between the trading partners and a commitment to quality control systems at both the production and retailing management levels.
- Price negotiations are obviously critical to the value-based pricing system, and pricing should be defined in the commercial terms and conditions of the relationship with the trading partner. One useful approach is to cap the product charged to a trading partner, and to lock into an agreed discount structure for the suppliers published price list. As a marketing tactic, the discount structure may be coupled with a "most favoured nation" clause - that is, a clause which provides that the trading partner is entitled to the maximum discount offered by the supplier for supply of comparable products to comparable trading partners.

10. STUDY CONTACTS

AUSTRALIA

| COMPANY | NAME | ADDRESS | PHONE | FAX |
|--|--|--|-------------|-------------|
| Allied Colour | Fecteau Bruce | PO Box 502 Glen Waverley Vic 3150 | 03-558 9200 | 03-558 9287 |
| Austan Pty Ltd | Dalle Pierre | PO Box 636 Forbes NSW 2871 | 068-52 1438 | 068-511 364 |
| Austrade | Lamb Richard Fernando Anthony | World Trade Centre Melbourne Vic 3000 | 03-284 3161 | 03-284 3162 |
| Australian Wool & Leather | Jain Manoj | 3/7 Levanswell Rd Moorabbin Melb Vic 3189 | 03-532 1937 | 03-532 2963 |
| Canberra Tannery | Dimple Hans | Underwood St ACT 2600 | 06-297 6157 | 06-297 6157 |
| Carlile Bros Pty Ltd | Carlile John | PO Box 150 Bendigo Vic 3550 | 054-43 1033 | 054-43 7961 |
| Consultant | Smart Nicholas | GPO Box 158 North Adelaide SA 5006 | 08-267 3188 | 08-239 0268 |
| CSIRO - Leather Research Centre | Gordon Peter | Bayview Avenue Clayton Vic 3169 | 03-542 2364 | 03-542 2363 |
| CSIRO - Meat Research Laboratory | Kurth Lyndon | Cnr Creek and Wynnum Rds Cannon Hill Qld 4170 | 07-214 2000 | 07-214 2062 |
| CSR Building Materials CSR Limited | Quinn Mike | 9 Help St Chatswood NSW 2057 | 02-372 5933 | 02-372 5800 |
| Department of Agriculture Western Australia | Frapple Paul Marshall Paul | 3 Baron-Hay Court South Perth WA 6151 | 09-368 333 | 09-474 2479 |
| Devro Pty Limited | Glen James | Sydney Kelso NSW 2795 | 063-31 5199 | 063-31 9193 |
| Fletcher Group of Companies | Fletcher Roger Crowley Cameron Carter Greg | Lot 1 Yarrandale Rd Dubbo NSW 2830 | 068-845 833 | 068-84 2965 |
| Goodman Fielder Ingredients Limited | Cox Bryan | Lev 4 230 Victoria Rd Gladesville NSW 2111 | 02-879 9300 | 02-87 96169 |

| COMPANY | NAME | ADDRESS | PHONE | FAX |
|---|------------------------------------|---|-------------|-------------|
| Independent Hide Skin Traders | Kiddle Norman | Suite 2 785 Pacific Hwy Gordon NSW 2072 | 02-498 4211 | 02-498 2229 |
| InterGel Limited | Akred Anthony | Lev 2 230 Victoria Rd Gladesville NSW 2111 | 02-879 9300 | 02-817 1642 |
| JM Bennett Consulting Services | Bennett Judith | 53 Darcey Rd castle Hill NSW 2154 | 02-899 9250 | 02-899 9248 |
| Katanning Wool and Pelts | Beeck Leeuwin Freshwater Frank | PO Box 787 Katanning WA 6317 | 09-458 5757 | 09-458 5757 |
| Lifeboat Designing Solutions | Tune Lyn | 76 Johnston Lane Annandale NSW 2038 | 02-552 4488 | 02-660 5465 |
| Mayall Australia Pty Ltd | Cole Christopher | 18 River Rd Richmond Vic 3121 | 03-429 4744 | 03-427 1510 |
| Oroton International Limited | Lane Robert | 52-54 Balgowlah Rd Balgowlah Sydney NSW 2093 | 02-949 5544 | 02-949 7376 |
| PMK (Australia) Pty Ltd | Ham Chris Yee Garry Kim John | 21 Gilbertson Rd Laverton Nth Vic 3026 | 03-360 0088 | 03-360 0185 |
| RAM-EX | Shepherd John | 60 Gregory St Toowong Brisbane Qld 4016 | 07-371 5047 | 07-371 0547 |
| Sanwa Pty Limited | Ferle Jack | Suite 603 Edgecliff Centre 203-233 New South Head Rd Edgecliff NSW 2027 | 02-362 4088 | 02-362 3622 |
| Shannon Wools (Australia) | Dorizzi Peter | Lot 20, Bell Rd Gingin 6503 Western Australia | 09-575 2007 | 09-575 2177 |
| Southern Pacific Sheepskins Pty Ltd | Conroy Brian Kivlighon Luke | 16-18 Gilbertson Rd North Laverton Vic 3026 | 03-369 4811 | 03-369 4796 |
| Tasman Sheepskin Tannery Pty Ltd | Moffat Peter | Cnr Boundary Rd & Potassium St Narangba Brisbane Qld 4504 | 07-203 0211 | 07-203 0654 |
| Textiles, Clothing and Footwear Development Authority | Ellard Vivien Ryan Desmond | 16th Floor Rialto Nth Tower 525 Collins St Melb Vic 3000 | 03-649 4625 | 03-614 8871 |

| COMPANY | NAME | ADDRESS | PHONE | FAX |
|------------------------------------|--------------------------------|---|--------------|-------------|
| The Fleececraft Sheepskin Co. | Warr Tony | 437 Nepean Hwy Brighton Vic 3187 | 03-596 6277 | 03-596 6343 |
| Venturetech Pty Ltd | Roberts Denis | School of Veterinary Studies Murdoch University Murdoch WA 6150 | 09-310 1094 | 09-310 1562 |
| Victoria Mouton | Knox John | 25-26 Lincoln St Laverton Nth Vic 3026 | 03-369 4755 | 03-360 0574 |
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| Wooltec | Carter Robert | 80C Charles St Putney NSW 2112 | 022-809 2322 | 02-807 3235 |
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| Gazi Tanneries (Pvt) Ltd Mariam Garments (Pvt) Ltd | Mohammad Arshad Gazi | Arkay Sqauer 10th Floor Room 41 SHahrah-E-Liaquat, New Challi Karachi Pakistan | 241 5603/242 6432 Factory: 312101 / 315 476 | (92-21) 310627 |
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| Haikou Yukim Engineering & Trading Company Limited | Chen Jin Zhou (Director) | Haikou 941 Seaside Estate Financial And Trade Zone Seaside Avenue Haikou, Hainan, PR China 570005 | 511 576 | 511 576 |
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| Rene Escande Et Cie | Rene Escande Et Cie | 26 Rue Lagoutine B.P. 4 81202 Mazamet Cedex | 63 61 21 72 | 63 61 19 49 |
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