

New Wave Leather Pty Ltd

Independent Review of Australian TCF
Industries

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Declaration of Interest: New Wave Leather is a manufacturer and exporter of leather. It is directly and indirectly affected by the policies and practices under consideration

Background

The leather industry has been an important element in the Australian TCFL industries since the development of a local footwear industry, initially as the supplier of intermediate tanned leathers. From the early 1980's, government programs aimed at promoting the internationalisation of Australian TCFL activities. Strategies were adopted to promote the further processing of raw materials including leather, wool and cotton in order to promote value adding in Australia, reducing these industries reliance on finished apparel and footwear and encouraging export activity.

Raw wool and cotton, carded and combed wool and cotton and raw and salted hides have been the province of primary industry. Tanned leather, woollen and cotton yarns and woven and knitted fabrics are the further transformed intermediate inputs into finished consumer TCF products

As TCFL is one of the most valuable global industries, Australian governments have developed these intermediate industrial sectors through various Industries Development Strategies. It is for this reason that funding has normally been directed at prospective activities and sectors rather than supporting activities that are dependent upon artificial price support or subsidization.

The leather industry is one of the most knowledge and capital intensive manufacturing activities. It involves:

- access to raw materials
- significant capital equipment
- technologically complex processes
- automated processing
- significant environmental, water and waste implications
- organic and inorganic chemical research & development
- engineering, information technologies and logistics

New Wave Leathers (NWL) is Australia's largest manufacturer and exporter of leather. It employs nearly 300 people in major industrial facilities in Toowoomba (Qld), Gunnedah (NSW) and Laverton (Vic). In 2006/07 the company had sales of over \$200 million including export markets in Japan, Italy and Brazil. The company has increased its sales over fivefold since its establishment in 2000. This has resulted in employment increasing by over 100% in the same period. The company is:

- committed to continuous improvement

- adapting and developing new technologies and processes
- investing in people, equipment and products
- innovating and exporting

NWL initially invested in new facilities at a rundown and practically decrepit plant at Toowoomba. NWL then introduced new management and operational processes. Through this program NWL began to produce a product that was of significantly better quality and cost than had previously been available from Australia.

NWL also initiated a program to address the development of new tanning techniques, differentiating leathers and dealing with the environmental effects of the residues of the existing tanning procedures. These areas included:

- automated chrome recycle
- liming processes that avoid draw marks in finished leather
- enzyme based yield development.

As a major user of water we also planned a major development in a new approach to water harvesting, use and recycling.

This plan, with the aid of the Strategic Investment Program, turned the tannery into one of the world's pre-eminent advanced leather manufacturing facilities over a 4 year period.

Following the extension of the SIP in 2004 NWL initiated a further major expansion to capitalise on the lessons learnt at Toowoomba. This involved purchasing inefficient tanneries at Gunnedah and Laverton and largely gutting them to install the improved equipment and processes we had developed at Toowoomba. This program required a forward commitment of over \$20 million of investment.

This commitment was made despite the then Government's decision to not support the development of new products and processes within the leather industry. This delayed the development of those research projects NWL had identified while concentrating resources on optimising the new capital facilities.

It was with some dismay that after committing to and expending over \$10 million in 2005/06 that the then Government modulated support for capital investments already committed to and undertaken. This reduced the level of support received from SIP by over \$1 million. This resulted in slower rates of capital installation, reduced levels of capital expenditure and further loss of momentum in product and process development.

This has occurred at the same time that our competitors in China are increasing their mandatory manufacturing of leather, with less stringent and rarely enforced environmental and noxious effluent controls. This increases their competitiveness compared to Australian operations. To the extent that Australian manufacturing of leather or the use of Australian leather is displaced by this more damaging product, global contamination from toxic effluent and contaminants is increased.

Outlook

The cumulative effect of the then Governments decisions to not support innovative product and process improvements and then to modulate support for capital expenditure already incurred has resulted in a significant vacuum in product and processing development appropriate to the extremely advanced processing facilities that are now in place in three States. Moreover the pace of development in effluent treatment, recycling and re-use has had to be slowed down as a result of the uncertainty associated with modulating capital investment in the current SIP program.

New Wave Leathers considers that there is a considerable challenge ahead to fully capitalise on the quantum improvements in capital facilities that has been engendered by the current SIP program. If these new developments are not sought the facilities will have to focus on volume production, which merely requires access to high volumes of hides. Recent drought conditions, combined with increased raw hide processing in China, has resulted in insufficient local hides being available for manufacturing into leather. If this shortage continues the best strategy to adopt is to merely salt the hides, which requires minimal labour, processing and capital equipment.

Issues

In NWL's view the leather industry needs to undertake additional investment, product development and process improvement to:

- build on capabilities introduced as a result of the SIP scheme
- encourage a transformative Australian industry to invest, innovate and diversify its product range

To achieve these industry development outcomes it is necessary to:

- capitalise on Governments past investment in SIP

- address the failure of SIP to follow through on the technological and product consequences major new investment
- develop new water management and effluent technologies that work in a more stringent environmental regulation regime

As a result of the modulation of the previous SIP scheme NWL's capital investment program has been slowed down as the financial support and security previously provided by SIP has been reduced. To complete this program support for new investment in plant and equipment should be extended from 2010 to 2015.

Support should be provided for the introduction of research and development into products and processes made possible by the advanced technical plant in place and the skills of a world leading operational group. This support should recognize the operational requirements of commercial firms undertaking and trialling chemistry experiments in the context of solving materials processing problems.

An effluent avoidance and treatment research and development program to specifically target this area of industry operations should be established. New tanning techniques to reduce and alleviate the need and impact for chrome and other tanning agents are required. Most existing environmental programs are focussed on water whilst the leather industry deals with water in the context of chemical residues. This is an area of applied chemistry and science that has to be developed at the factory level due to the variability and specificity of the tanning materials and operations.

New water management technologies are also required. These issues are magnified by the location of two of our plants in rural Queensland and New South Wales where access to and use of water is a significant community problem. This means that the future security of the plants access to water could become a critical issue. As such we are looking to develop a completely closed water system that will be independent of the surrounding infrastructure.

Given the importance of being able to continue sustainable and efficient employment in regional and rural areas an uplift factor should be applied to any entitlements earned through expenditure or activity in regional areas.

The hard physical work associated with working in a leather manufacturing plant combined with the remoteness of our regional facilities means that attracting and retaining suitably skilled labour is a constant constraint on the efficient operation of the facilities. Whilst we are active in working with the local training institutions it is difficult to integrate our operational requirements with the language and literacy skills which many of our employees need. A program to support the integration of such

skill development into our facilities, whether on site or at an external location, would represent a notable improvement in a current infrastructure blockage

Recommendations

New Wave Leathers recommends that a leather industry development program should form part of the Australian Governments manufacturing policy for 2010 -2015. The key elements of such a program should include:

- support for capital expenditure to 2015. The announced level of funding should not be subject to modulation to ensure that the confidence needed to justify and then succeed in a major capital investment program is not subsequently undermined
- support be provided for the development of innovative leather products and process developments from 2010 to 2015.
- an effluent avoidance and treatment research and development program to specifically target this area of industry operations.
- a water harvesting and management program should be established with specific focus on developing a completely closed system
- a regional uplift factor should apply to support provided for activities or expenditures in regional/rural areas
- a program to support the integration of training institution activities, such as language and literacy skills, into facilities would be advantageous in addressing labour and skill shortages.