

Despite the floods, signs of growth

The New Zealand leather processing industry has now settled into a structure that will serve it for the medium term future. The meat processing industry rationalisation has continued with PPCS finally gaining control of the Richmond group in late 2003 after a prolonged struggle that ended up in the courts on several occasions. The push for a northern presence for the two southern island meat-processing companies is to gain a supply of product over a longer period than the shorter southern killing season provides. Alliance had a full season's kill at its revamped Dannevirke plant although throughput was down on predictions. Another player in this region emerged when Canterbury Meat Packers Ltd announced its intentions of building a new works near Marton. This was after withdrawing from a takeover bid for Waitotara Meat Processors near Wanganui. With PPCS now having access to the Richmond plants, some further rationalisation is likely.

The shift in kill figures has continued with the sheep population continuing to fall and dairy cattle numbers increasing. (Tables 1, 2 and 3).

Astonishing February

The most dramatic impact on future livestock numbers came, not from changes in land usage, but a natural disaster. The weather event that hit the lower North Island in February 2004 was little short of incredible. Rain started in most places on a Saturday and did not stop until the Monday. Two days later there was more heavy rain followed by gales. Ten days of flooding followed in Manawatu and resulted in 2,000 people being evacuated and another 10,000 without power, water or road access.

More than 250,000 people were affected by the flooding event and many will continue to be affected for years to come. It is estimated that the cost to the rural sector could total NZ\$160-180 million.

The Richmond Shannon plant buried under ten feet of water

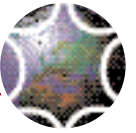
Photo courtesy of Ministry of Civil Defence & Emergency Management

Right in the middle of this devastation was the Richmond Shannon fellmongery. This large plant receives pelts from the four Richmond slaughterhouses and processes around 2.6 million pelts per year. But not since the factory was buried under ten feet of water in the February floods.

Since the closure, the skins from the Richmond works have been contract fellmongered by Progressive Leathers, Hollanders Waitotara Processors and Tomoana Pelt Processors, whenever these plants have had excess capacity. Fortunately, Richmond has been able to continue the selection of around 70,000 dresser type woolskins for Bowrons. The remaining 400,000 skins have been salted and will be processed in the off-season. Shannon is due to open again in June and aims to have the salted skins all processed by October. Richmond Ovine Marketing Manager, Frank Bell, said while it had been difficult to maintain a supply line to their regular customers over the past few months, there would be the bonus of having product available in the coming off-season when pelt stocks are traditionally low.

Two new fellmongeries have been established in the past year. The largest of these is Progressive Leathers Ltd in Whakatu, near Hastings. The plant has now been operating for over one year and has increased its capacity to 18,000 pelts per day through the installation of two more wooden drums from China, giving them seven 3.5 m drums in total. The latest two drums were installed to process the skins from the Alliance Dannevirke plant and Progressive was pleased to have this vindication of its process from such a major meatworks group. The high quality of the Progressive pelts was very pleasing to Technical Manager Graeme Deans and he considered part of this was due to the use of chilled water to cool all woolskins at the source of supply.

The other new skin processing facility, Wanganui Skins &



Hides Ltd, was established a year ago in Wanganui by Peter Morgan, formerly with Hollanders Waitotara. This operation is processing hides, sheep, lamb, goat and deer skins on a commission or contract basis. Main production is pickled pelts and exports have been made to USA and China. Current production is 6,500 skins per week but it is intended to continue to increase this figure up to the target of 20,000 skins a week. Future intentions include going through to the wet blue stage. The company also salts 300 cattle hides per week.

Another fellmongery to increase capacity was Tomoana Pelt Processors Ltd, which added the facility to process a further 25,000 skins per week through the installation of two more mixers, giving them ten in total. The other major purchases by Tomoana were two throughfeed Mercer pickled pelt-measuring machines. While there had been some initial problems, Managing Director Neville Heafey said the machines were now working well. He was expecting considerable benefits from being able to offer tanners an accurate representation of what they could expect from the raw material purchased. The measurers were part of a major revamp of the logistics of Tomoana's pelt handling, moving to an in-line system.

Mr Heafey also commented on the numbers of dresser type woolskins being salted for woolskin tanneries. Both shorn lambs and skins suitable for rugs were being selected and it is estimated that 1.7 million NZ woolskins are now being selected for this end use. He considered that this would be an increasing trend in the future, one that fellmongeries would have to take more into consideration, both in sorting area layout and selection procedures.

Another major project was the upgrading of the Alliance Group Lorneville pelthouse. The revamped plant can now process 32,000 skins per day and Alliance executive, Dick Harper, reported that benefits from the upgrade included:

- Bigger, flatter pelts
- Substantially improved wool recovery
- Reduced labour costs
- 25% reduction in chemical usage
- Reduced pressure on effluent treatment system

On the bovine side, Tasman Tanning celebrated its 50th year with another round of expansion and machinery replacement. The expansion was of the existing wet end at Heads Road where



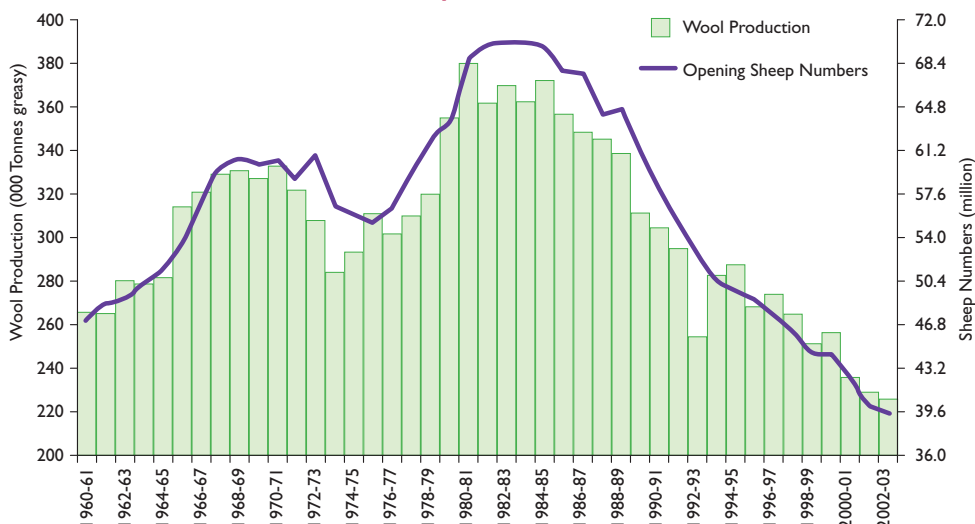
New wet end extension at Tasman Tanning

a new 20,000 sq.ft. building was added to allow for the installation of an additional seven mixers.

Some of these will be used as tanning vessels after the heavier hides have been limed in the Huni drums and then lime-fleshed on the new Poletto lime flesher. Other new machines recently purchased include a Gemata whole hide roller coater, a Bergi buffer and six Emmezeta stackers. Managing Director, Hunter Tait said that he firmly believed that New Zealand tanneries could compete with Asia but only if they concentrated on efficiencies and reducing costs. As an example, Tasman is currently focusing on logistics—moving leather through the plant more efficiently. To that end, Tasman had recently requested a visit from logistics expert, Domenico Feltre, whose hide-handling solutions were well received by the Tasman technical staff.

The reason for this continued growth has been the success of Tasman's plan to target niche markets where margins are better. To this end, it has concentrated on hi-tech leathers, especially in sports footwear and industrial boots. The current star of its hi-tech range of leathers is its aviation upholstery leather. These have been in use by Air New Zealand for some years on the airline's ATR aircraft and the leather is currently being fitted to their fourteen new Airbus planes. Another high profile customer

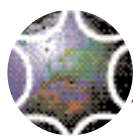
New Zealand Wool Production and Sheep Numbers



Source: Statistics New Zealand, MWI Economic Service

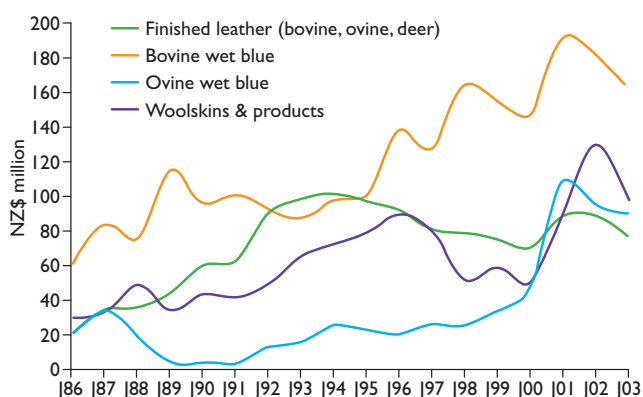
Every cloud has a silver lining

Tasman also suffered from some unnatural weather, when a freak hailstorm deposited tonnes of hailstones on the roofs of the tannery buildings. The roof of the chemicals storage warehouse could not stand the incredible weight of ice and promptly collapsed. The office roof also took a pounding with the result that carpets and ceiling panels had to be replaced. This has given Tasman the opportunity to revamp and renovate its offices so while the disruption was not welcome, the new look offices are being enjoyed by staff and visitors alike.



Country Commentary: New Zealand

Exports by the New Zealand tanning industry



is Qantas where Tasman's leather was used on the aircraft purchased by its Jetstar offshoot. Tasman is certainly leading the way when it comes to showing that modern and efficient New Zealand tanneries can compete with tanneries anywhere in the world.

Lowe Corporation, the largest independent leather processor, has also increased capacity at several of its locations. Additional Canbar mixers will be installed over the off-season at its Hastings plant, increasing the wet blue pelt processing capability. New drums have also been installed at the Auckland, Christchurch and Dunedin plants.

Leather industry stalwart, Nigel Dobson, of Astley Leathers, reckons it has been a tough 12 months. The huge increase in the value of the New Zealand dollar made for some of the most difficult trading conditions seen for some time. The dollar hit a nine-year high, peaking at 71 cents to the US dollar. Fortunately this level was only a spike and the NZ dollar has quickly retreated to more manageable levels of around 60 cents. With the NZ tanning industry now being virtually entirely an export business, Dobson considered most of the country's tanneries would have seen decimated margins and unacceptable returns, had the currency not fallen to the current levels. On the raw material side, Astleys is still finding it can be difficult to source suitable salted product as most tanneries were now wet blueing most of their bulls as well as the lighter cows. Hide prices have been stable; although firmer than the depressed US hide market.

James Wallace, of Wallace Corporation Ltd, was also relieved at the fall in the NZ dollar, as he too believed that many tanners would have been in great difficulty if the NZ dollar had stayed above 70 cents. Mr Wallace pointed out that, in the end, it was the farmer that suffered with many now receiving less than half the amount they were getting one year ago for a boner cow. The throughput of the Wallace plants had stabilised at 400,000 hides annually and 300,000 calfskins. Mr Wallace stated quite emphatically that they had no intention of growing any bigger but just wanted to concentrate on its market niche.

The next thrust for Wallace Corporation Ltd was into crust pelt leather, to complement the substantial production of crust hide leather, a proportion of which is taken through to finished leather at its plant in Wanganui. The crust pelt venture is being undertaken in association with Swiss and Italian companies. One of the Wallace technicians is currently in Italy studying the requirements for such leather. The intention is to construct a large building next to the existing crust hide operation at Waitoa, with the target of an October start up. There was no intention of Wallace's going into a fellmongery operation as it was quite

Table 1: Annual percentage changes in livestock numbers 1998-2003

	1998-99	1999-00	2000-01	2001-02	2002-03
Sheep	- 0.5	- 4.4	- 5.3	- 1.2	- 1.0
Beef Cattle	- 2.2	- 0.2	1.6	3.5	0.9
Dairy Cattle	0.6	5.5	5.1	2.5	1.0
Total Stock Units	- 0.6	0.3	- 0.1	0.3	0.5

Source: Statistics New Zealand, MWI Economic Service

Table 2: Livestock numbers ('000) 1993-2003

	Total Sheep	Total Beef Cattle	Total Dairy Cattle	Total Deer	Total Goats
1993-94	50,298	4,758	3,550	1,078	353
1994-95	49,466	5,048	3,839	1,231	284
1995-96	48,816	5,183	4,090	1,179	256
1996-97	47,394	4,852	4,165	1,192	228
1997-98	46,077	4,775	4,398	1,266	212
1998-99	44,400	4,379	4,516	1,201	152
1999-00	44,190	4,283	4,543	1,336	139
2000-01	42,260	4,276	4,794	1,542	147
2001-02	40,033	4,345	5,038	1,541	147
2002-03	39,546	4,495	5,162	1,644	153

Source: Statistics New Zealand, MWI Economic Service

Table 3: FOB value of New Zealand exports - year ended June (NZ\$ million)

	2000	2001	2002	2003	2002 to 2003 % change
Hides & Skins	291.0	442.9	375.3	299.7	- 20.1
Leather and dressed skins	302.2	450.6	439.6	328.4	- 25.3

Source: Statistics New Zealand, MWI Economic Service

happy that there is already sufficient capacity in New Zealand to provide competitive toll processing.

Crust pelt production does not appear to be considered by many other ovine tanners with wet blue still remaining the most common option. The finished leather ovine tanneries had mixed results in a difficult year when they were affected by a downturn in demand.

Adjusting to high prices

The woolskin tanning industry has adjusted to the high prices of Australian skins over the past two years by switching to increased use of New Zealand raw material. As noted earlier, many New Zealand fellmongeries are now selecting out dresser type skins to supply to woolskin tanneries. It is estimated that around 1.7 million such skins are now supplied with 50% going to local tanneries and the rest to mainly Chinese clients. This move away from dependence on high-priced Australian raw material has seen an improvement in profitability and ensured the future of the New Zealand woolskin tanning industry.

The investment by many companies, both in new plants and in major upgrades, is a demonstration of their confidence in the future of the New Zealand leather processing industry. The industry is much changed from a decade ago but now seems to be settling into what should prove to be a prolonged period of steady growth. ●