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PROJECT INFORMATION SHEET

PAP-09-71

United Nations Industrial Development Organization

SECOND ASIAN MEETING TO 1/
PROMOTE INDUSTRIAL PROJECTS

SINGAPORE, 3-11 November 1971



LEATHER TANNING

COUNTRY	Papua/New Guinea
PROJECT	Extension of an existing leather tannery
	Additional Investment : US\$ 15.000 to 20.000
	Capacity : 5.000 hides per annum
FOREIGN CONTRIBUTION REQUIRED	Technical Assistance

1/ Sponsored by: The Economic Commission for Asia and the Far East (ECAFE)
the United Nations Industrial Development Organization (UNIDO).

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IMPORTANT NOTICE

The basic purpose of this meeting is to provide an Exchange or Market Place for the initiation of contacts on specific industrial projects between their proponents from the Asian countries and potential suppliers of capital, finance, equipment or know-how, as the case may be, from the industrialized countries.

This Project Information Sheet has been prepared as a basis for such contacts. Its purpose is not to present detailed information about the project but to provide the recipient with an outline sufficient to determine tentative interest in principle. Any further available information on the project will be furnished on request to interested parties at the Meeting.

Experience has shown that industrialists frequently prefer to carry out their own further investigations in detail into projects in which they are interested, but assistance from UNIDO in these matters can be rendered to the Asian country concerned on request.

This Information Sheet contains only the information supplied to UNIDO by the proponent of the Project. UNIDO can therefore take no responsibility for its accuracy.

LEATHER TANNING

Leather tanning with possibility of supplying leather to related industries in Papua New Guinea or engaging in manufacture of leather goods as an adjunct to the tanning industry.

Promoting Agency

Department of Trade and Industry, Port Moresby, Papua New Guinea through the Department of External Territories, Commonwealth of Australia, Canberra.

Purpose of project

Basic information on markets, likely costs of establishment of industry, source of supply of raw materials, likely profitability, incentives etc. are set out so that potential investors may form a preliminary estimate of advantages in establishing the industry in Papua New Guinea.

Background

A leather tanning factory would be located in an area accessible to the large cattle holdings in the Highlands; Lae would be the obvious location at present.

The industry would be initially aimed at export markets until a leather working industry was established.

(a) Domestic Market

The domestic market for hides and skins would not support a leather tanning industry at this time. Imports of hides and skins in 1969/70 were valued at only approximately \$160. A necessary development would be the establishment of a leather product industry to manufacture a wide range of leather goods. This could either be a separate concern or an adjunct to the tanning factories' activities.

Listed below are the imports of leather articles for 1969/70 and the first seven months of 1970/71. Earlier import figures are not given because of limited comparability caused by classification changes.

	<u>Value A\$</u>	
	<u>1969/70</u>	<u>July 70-Jan.71</u>
Clothing - accessories of leather or composition leather-belts, gloves.	66012	41854
Trunks, suitcases, travelling bags.	15918	9882
Handbags, wallets, purses	36598	20243
SUBTOTAL A	<u>118528</u>	<u>71979</u>
Composition leather with basis of leather or leather fibre, in slabs, sheets or rolls.	6566	2376
Calf leather	103	65
Leather of other bovine cattle - sole leather, upper leather, suede.	1414	722
Other leather - sheep, goat, patent, metallised, tanned bird and reptile skins	4371	3489
SUBTOTAL B	<u>12454</u>	<u>6652</u>
Machine leather belting and other articles of leather for use in machinery	22681	27132
Saddlery and other harness makers goods	11073	6737
Uppers, legs and other prepared parts of footwear.	2331	1240
Stationery and book covers, blotting pads.	104	150
Other	14662	7661
SUBTOTAL C	<u>50851</u>	<u>42920</u>

	<u>Value A\$</u>	
	<u>1969/70</u>	<u>July 70-Jan. 71</u>
Bovine and equine skins other than calf skins	10	-
Calf skins	40	-
Goat and kid skins	-	-
Sheep and lamb skins, without wool.	-	-
Waste - used leather	50	-
Reptile skins - snake, crocodile	-	-
Other	<u>62</u>	<u>-</u>
SUBTOTAL D	162	-
All leather sports shoes	35850	18934
Leather boots and shoes	563336	450903
Rubber soled boots and shoes	155182	110450
Plastic soled boots and shoes	<u>38245</u>	<u>37044</u>
SUBTOTAL E	<u>792613</u>	<u>617331</u>
TOTAL A, B, C, D, E,	<u>974608</u>	<u>738887</u>

A leather goods factory working in the wallets, handbags etc. field would probably be able to develop a sizeable market in Papua New Guinea with the introduction of new lines aimed at the tourist traffic. The present market appears to be worth about \$150,000 per annum and this could probably be pushed to around \$200,000 per annum without much trouble.

It is difficult to estimate the quantity of leather a wallet etc. factory would use each year but it is considered unlikely that it would take the whole output of a tanning factory which would have about 5000 skins available to it now and many more in the near future (see table).

The market for leather shoes appears to be growing rapidly and 1970/71 imports look like almost doubling the 1969/70 level. The manufacture of leather uppers and soles either for export or for a locally based shoe manufacturer would appear to be a feasible proposition when a tanning factory is established. The manufacture of uppers and soles could probably incorporate the manufacture of wallets and tourist pieces with relatively little more expense.

(b) Export markets

Imports of hides and skins into Japan, Hong Kong and Singapore are shown below:

<u>HONG KONG</u>	A\$
Imports of bovine and equine undressed hides - January - December 1970	3,557,340
<u>SINGAPORE</u>	
Imports of cow and buffalo hides undressed January - September 1970	91,556
<u>JAPAN</u>	
Imports of Buffalo and cattle hides and skins January - December 1969	65,671,326

Cattle slaughtered per year are shown in the table below. It is estimated that this will rise to 20,000 head per year by 1974 with an eventual total of 50 - 60,000 per year.

About 5,000 head are being slaughtered per year in and around Lae with a potential export value of around \$250,000 at present.

PAPUA NEW GUINEA CATTLE SLAUGHTERED

	1967-68	1968-69	1969-70	1970-71	Estimated 1971-72	Estimated 1971-72
Port Moresby	690	800	900	500	950	
Lae	1600	2800	3900	4500	5000	
Goroka	-	250	500	650	800	
Mt. Hagen	-	-	300	550	900	
Madang	-	-	350	600	950	
Wewak	-	-	-	450	600	

A ready market is said to exist in Hong Kong and Singapore for processed leather goods.

A leather tanning factory has been set up in Lae but failed to get off the ground through lack of skilled personnel. The present owner is interested in either selling or setting up a joint venture with an interested firm.

The plant, buildings, and land of the present factory have been established at a cost of about \$65,000. However, additional equipment would need to be installed to enable the leather to be processed to a stage where it was suitable for a local leatherworking industry. This would require additional investment in equipment of about \$15,000 - 20,000 together with the provision of necessary expertise.

Labour required has been estimated at about 70 semi-skilled workers with another 20 unskilled and office staff.

At full capacity, profitability could be expected to exceed 20% on fixed assets.

Other relevant information

The tanning of leather has been declared a pioneer industry giving a pioneer certificate holder company tax exemption for 5 full financial years.

Duty on imported hides is currently 17½% with an additional 2½% general import levy. Further tariff assistance could be sought if it was necessary to secure effective competition with imports.

Future benefits could include an export incentives scheme or other schemes of assistance. There are no restrictions on capital movements or repatriation of profits.

Benefits to economy of Papua New Guinea would include :

Import replacement

Export earnings

Employment of 90 semi-skilled and unskilled labourers

Investment of \$80,000 with possibility of further investment and expansion.

A N N E X A

GENERAL INFORMATION FOR PROSPECTIVE INVESTORS

Shipping Rates - General Freight

Australia - Papua New Guinea	\$ 30 / shipping ton
Japan - Papua New Guinea	\$ 35.32 / shipping ton
Europe - Papua New Guinea	\$ 63.89 / shipping ton
Coastal shipping - main ports	\$ 15.70 / shipping ton

with possibility of increase in near future.

Lower rates may be negotiated on a contract basis.

Land

Freehold Land

Very occasionally available by private sale. Prices would be high and variable.

Leashold Land

99 year Government leases at annual rental of 5 % of unimproved capital value which ranges between \$ 3,000 to \$ 6,000 per acre. Leases subject to tender but direct application may be considered in certain circumstances. Leases generally available in main urban centres.

Cost of building residential and industrial premises

Houses - approximately \$ 1,000.-/100 square feet excluding land costs.
Factories - \$ 600.-/100 square feet - base cost. Up to \$ 900.-/100 square feet for inclusion of storage, parking and amenities.

Cost of renting and purchasing residential premises

Rental - unfurnished flats, 1 bedroom - \$ 20.-/week
 unfurnished flats, 2 bedroom - \$ 30.-/week
 Houses 3 bedroom - \$ 50.- to \$ 70.-/week
Purchase - (Town area) House 3 bedroom- \$ 23,000.- to \$ 35,000.-
 (Suburbs) House 3 bedroom- \$ 12,000.- to \$ 25,000.-

Labour Rates (Urban)

Unskilled indigenous	\$ 30.- /month
Semi-skilled indigenous	\$ 45.- to 60.- /month
Skilled indigenous	\$ 50.- to 150.- /month

The above rates are approximate only.

Skilled overseas \$400.- to 600.- /month with varying side benefits, e.g. leave fares, housing subsidy, etc.

Water Supply

Most small towns are supplied from wells and rainwater storage. Port Moresby and Popondetta have chlorinated, reticulated water supplies while limited reticulated supplies are available in Rabaul, Lae, Goroka and Lorengau.

Electricity Rates

(cents/kWh)	Zone <u>1</u>	Zone <u>2</u>	Zone <u>3</u>	Zone <u>4</u>	Zone <u>5</u>	Zone <u>6</u>
First 50 kWh/month	13.0	13.0	13.0	13.0	14.0	14.0
Next 200 kWh/month	7.0	7.0	8.0	8.0	9.0	9.0
Next 400 kWh/month	5.3	5.6	6.3	7.5	8.2	9.1
Next 4000 kWh/month	3.2	4.3	5.2	6.0	6.7	7.6
Balance	3.2	3.5	3.9	4.7	5.5	6.3

Maximum demand rate:

Zone 1 only - made up of a two-part charge:

(1) A charge of \$ 550.-/installation/month and a charge of \$ 5.50/kilowatt that the recorded maximum demand of the installation exceeds 100 kilowatts.

(2) An energy charge of 1.5 ¢ /kWh

Zones: 1 Port Moresby
2 Lae, Madang, Goroka, Rabaul
3 Samarai, Wewak, Kavieng
4)
5) none at present
6)

Taxation

(a) Company tax

Currently, a flat rate of 25 % operates on both private and public companies. Distribution of dividends is not required. Pioneer industry concessions give exemption from company tax for five full financial years after commencement of commercial production. Any losses may be recouped

from subsequent profits up to seven years after such losses have been incurred.

(b) Income tax

Income tax is currently quite low on taxable income, which is arrived at after generous concessions for dependents and allowable expenditures.

For example:	<u>Taxable income</u>	<u>Tax payable</u> (single taxpayer)
	A\$ 4,800	A\$ 544.20
	6,000	814.20
	8,000	1,334.20
	10,000	1,914.20
	16,000	3,854.20

Communications

Communication by road is still restricted due to the terrain of Papua New Guinea. With the exception of the Lae to Highlands and New Ireland areas, and the immediate hinterland of Port Moresby and Rabaul, virtually all transport is by air or sea.

Air routes are well serviced by several companies. In addition, several charter organizations operate throughout the Territory.

The coastal shipping routes are well serviced by medium/small freighters.

Banking

Four Australian Banks operate trading and saving facilities in Papua New Guinea and all provide full internal and international banking services.

Proceeds of foreign transactions are dealt with through the Reserve Bank of Australia which has a branch in Port Moresby.

Company Registration

Company registration is controlled under the Papua New Guinea Companies Ordinance 1963-66 and is relatively easy to accomplish. Details of fees and procedure are available on request.

Immigration

Approval may be given for the temporary entry of certain key professional workers and technicians in limited numbers for up to two years for essential purposes subject to certain conditions.

Climate

Generally hot and humid in the wet season which lasts from November - April. The remainder of the year tends to be slightly cooler and drier, with relatively constant monsoonal winds. Nights are cooler during this season.

Port Moresby rainfall is approximately 46 inches per year. Falls throughout Papua New Guinea are generally higher than in Port Moresby and in other main centres would range from 80 - 180 inches.

Health

Normal health services are available at all main centres. Anti-malarial suppressives are recommended throughout.

Postal Services

Daily service to Australia and overseas.

Telegrams via OTC network. Radio telephone operates connecting most centres.

Co-axial cable connects the main towns for telephone link.

VHF telephone installations are being constructed throughout Papua New Guinea.



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