“Market Research and Monitoring on the leather industry in selected Asian countries: China, Indonesia, Philippines, Vietnam”

STUDY REPORT: MARKET SURVEY ON THE PHILIPPINES

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Section A

P H I L I P P I N E S

COUNTRY REPORT

1. Political background

After a Spanish colonialism began in 16th century, a popular rebellion broke out at the end of 19th century and Spain ceded the Philippines to the US.

Under US colonial rule democratic institutions were introduced, Filipinos increasingly took over all political and bureaucratic positions and English-language education was extended throughout the country. In 1934 the Philippines was made an internally self-governing commonwealth, with full independence scheduled for July 4th 1946.

This transition was interrupted by the Japanese invasion in December 1941. The country resumed its path to full independence, which was achieved on schedule in 1946.

The new republic had a constitution modelled on that of the US and, as in Washington, power tended to alternate between two parties, the Nacionalistas and the Liberals. The fairly peaceful alternation in power within the political elite was interrupted in September 1972 as the president, Ferdinand Marcos, neared the end of his second term. Citing the threat from "subversive forces", the president imposed martial law.

For the next 13 years, until 1986, the Philippines experienced "constitutional authoritarianism". Opposition, which was never absent, was growing throughout Mr Marcos's rule, but with many of its leaders in detention or voluntary exile the moderate opposition seemed unable to mobilise feeling against the administration and its abuses.

The situation changed radically in August 1983, when Benigno Aquino, the opposition leader regarded as the most credible alternative to Mr Marcos, was assassinated minutes after his return from exile and while under military escort. A series of massive demonstrations followed in which the disenchantment of the urban middle class, and notably the business community, was expressed for the first time.

To reassert his own supremacy, Mr Marcos called an early presidential election for February 1986. In a close-run battle he was narrowly defeated by the candidate of a temporarily united opposition, Corazon Aquino, the widow of Benigno Aquino. Mr Marcos's attempt to hold on to power set off a coup attempt in the military, backed by the deputy chief-of-staff, Fidel Ramos, and the defence minister. This received critically important backing from Mrs Aquino's People's Power movement and the local Catholic Church. Under pressure from Washington, Mr Marcos went into voluntary exile in Hawaii, where he died in 1989.

Under the new regime civil liberties were restored, political prisoners were released and the NPA was offered a six-month ceasefire, with negotiations on grievances, in return for surrendering its arms. A new constitution, drawn up by a convention appointed by Mrs Aquino, largely restored the set-up abolished by President Marcos in 1972 but with new controls on the presidency based on the experience of the Marcos years.

- The Aquino presidency did achieve a fundamental objective: the transfer of presidential power at the end of the constitutional term, by democratic means and in a relatively (for the Philippines) peaceful manner. The election of 1992 brought to power the candidate supported by Mrs Aquino, Mr Ramos.
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Mr Ramos's election ensured the continuation of the political and economic policies of the Aquino administration and was well received by the country's major foreign creditors and the local business community. Within months of coming to office Mr Ramos had built up a large pro-government majority in the Congress, secured a cessation of hostilities by dissident military groups and begun the process of peace negotiations with both communist and Muslim secessionist rebels. Although deep-rooted economic and social problems remain largely unresolved, the resumption of economic growth and the prospect of its maintenance at more robust levels throughout the rest of his term enhanced the president's popularity.

In the 1998 presidential election Mr. Joseph Estrada became President.

2. Economic background

Main economic indicators

	1994	1995	1996	1997	1998(a)
GDP at current market prices (P bn)	1,692.9	1,906.0	2,171.9	2,423.6	2,721.0
Real GDP growth (%)	4.4	4.7	5.9	5.2	-0.5
Consumer price inflation(av; %)	9.3	8.1	8.4	5.1	9.7(b)
Fiscal balance (% of GNP)	1.0	0.6	0.3	0.1	-1.6
Population (m; mid-year)	68.6	70.3	71.9	73.5	75.2
Exports fob ($ m)	13,483	17,447	20,543	25,228	29,508
Imports fob ($ m)	21,333	26,391	31,885	36,355	31,251
Current-account balance ($ m)	-2,950	-3,297	-3,953	-4,303	308
Reserves excl gold ($ m)	6,017	6,372	10,030	7,266	10,900
Total external debt ($ bn)	40.0	39.4	41.2	45.5(a)	49.1
Total external debt service ($ bn)	4.64	5.33	5.78	5.44(a)	6.32
Exchange rate (av; P:$)	26.42	25.71	26.22	29.47	40.77

(a) estimates

The economy is marked by very great disparities: in the ownership of assets, in income, in levels of technology in production and in the geographical concentration of activity. The National Capital Region (NCR), the region centred on Manila, accounts for 14% of the population and produces one-third of GDP. Income per head in 1996 in the NCR, the richest region, was almost seven times the level in the poorest. Those living at or below the poverty line were estimated at 41% of the population in 1994-an improvement on the 59% registered at the height of the economic crisis in 1985 but nevertheless a very high proportion, and one that compares badly with similar Association of South-East Asian Nations (ASEAN) economies (22% in Thailand in 1988 and 19% in Indonesia in 1990).

Comparative economic indicators, 1997

	Philippines	Indonesia	Malaysia	Taiwan	Thailand
Real GDP growth (%)	5.1	6.6	7.0	6.4	0.4
Consumer price inflation (%)	5.1	7.5	2.7	0.9	5.6
Current-account balance ($ bn)	-3.74	-4.84	-4.90	6.80	-5.30
Exports of goods ($ bn)	25.2	53.4	77.5	125.6	55.5
Imports of goods ($ bn)	35.9	41.7	73.3	111.1	58.4

Source: EIU.

As a result of the policies pursued by the Aquino and Ramos administrations, the economy is undergoing profound restructuring and liberalisation, after decades of protectionism which has its roots in the rentier economy of the colonial period. This programme is multifaceted, and its main components are as follows:

- the elimination of monopolies;
- the opening of restricted or banned sectors to foreign investment;
- the privatisation, wholly or in part, of all government corporate holdings and such core services as are appropriate;
- the easing or lifting of tariff and non-tariff barriers;
- a simplified and widened tax system that will yield enhanced tax receipts.

To varying degrees all these policies challenge entrenched interests, and some have not been fully implemented because, in the existing political and economic climate, these interests find strong protection in Congress. Nevertheless, major structural reforms have been introduced or are in the process of legislation or debate. The programme suffered a reversal in November 1997, however, when the Supreme Court ruled that the then current oil price deregulation law was contrary to the constitution since it favoured existing oil companies. Undeterred, the government got congressional approval for a new oil deregulation law in February 1998.

The underlying aim of the programme is to improve resource mobilisation. One means of achieving this is the build-operate-transfer (BOT) type of contract, where the Philippines has been a groundbreaker. This mechanism shifts the capital and management burden from the public to the private sector and was initially employed to remedy the critical power shortage in Luzon in 1992-93. It has been extended to other forms of physical infrastructure where inadequacies already constrain economic growth but which the government's budget resources do not permit it to enhance. Currently, major road and rail contracts are being awarded on a BOT basis, as are further contracts to increase electric power capacity.

The recourse to BOT or similar contracts has eased the government's budgetary position. An even more important contribution has come from the sale of government assets, both corporate and physical. This enabled the budget to move into a P16.3bn ($617m) surplus in 1994 (equivalent to 1% of GDP) and remain in surplus thereafter, albeit declining steadily to P11.1bn (0.6% of GDP) and P6.3bn (0.3% of GDP) in 1995 and 1996 respectively. These budgetary surpluses have, to some extent, become a self-generating process since they have lowered the debt on which interest liabilities arise, and interest is the principal item of budget expenditure. Thus a new feature in 1996 was a marginal surplus recorded before privatisation proceeds, which owed much to the fact that interest spending was lower than targeted. The public sector deficit (as opposed to the government's budget balance) was nearly zero in both 1994 and 1995, and there was a small surplus in 1996.

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The other macroeconomic stabilisation targets agreed with the IMF had also been broadly achieved by late 1997. Money growth has been held down (if not quite to initial IMF targets), despite the boost to liquidity from dollar inflows, in the form of portfolio investment and overseas workers' remittances. The strength of the peso caused by these inflows and the elimination of the fiscal deficit were important factors in bringing down the rate of consumer price inflation to a low of 5.1% in February 1995. Because of an unavoidable shortfall in rice supply, inflation subsequently rose to double digits in the last four months of 1995 and the first five months of 1996, but then resumed its downward path, to average 5.1% in 1997.

Stability in the current account of the balance of payments was an objective nearly reached in 1996 and the first half of 1997. The deficit had risen between 1995 and 1996, from $3.3bn to $3.9bn, or from 4.3% to 4.5% of GDP, whereas in January-June 1997 the deficit of $2.1bn was more than $600m lower than in the corresponding period of 1996. The administration was looking to sustained export growth to narrow the trade imbalance, while at the same time hoping that the liberalised environment for business would increase inflows of direct investment, covering more of the current-account deficit and enhancing the economy's capacity to achieve payments equilibrium over the longer term.

Progress on the fiscal balance and the current account of the balance of payments was derailed by the currency crisis that hit the Philippines along with other, larger economies in the region in mid-1997. The steep fall in the peso and the sharp rise in interest rates to soften its decline appear to have had an adverse affect on both net service and transfer receipts. The current-account deficit during January-September 1997 at $3.16bn represented a $417m deterioration over January-September 1996. The depreciating peso and higher interest rates have also pushed up the cost of servicing the government's debt, at the same time as the downturn in economic growth has hit the revenue side. The fiscal surplus for 1997, which had already been cut from an expected P13bn to P7bn in late June, ended the year at P1.6bn. For 1998 the combination of higher borrowing costs over a full year and much slacker GDP growth as investment is squeezed means that fiscal equilibrium can be achieved only at the cost of steep cuts in spending. Naturally such action is politically difficult during an election period.

Because of the deteriorating fiscal position in 1997 and the court ruling against oil deregulation (one of the core policy commitments to the IMF), the Philippines did not make the hoped-for clean break from its IMF programme by the end of 1997. However, the prospect of a complete break from the IMF had become less attractive as the regional financial crisis deepened. Consequently a "precautionary stand-by arrangement" was being negotiated in March 1998, to follow on from the extended funding facility that was then due to expire. Apparently no policy or performance criteria are to be specified; rather, indicative numbers will be set, within which the Philippines must remain if it wishes to have access to some $2bn (reportedly) over a period of 12-18 months.

The outlook for 1999-2000 indicate that the GDP growth will pick up only slowly.

The economy will move out of the shallow recession it has experienced since mid-1998, but only slowly. (GDP fell at an average annual rate of 0.4% in April-September.) The improvement will be extremely modest until well into 1999, when full-year GDP growth is forecast at just 1.2%, but should then gather strength to approach 3% in 2000. As in the years before the Asian regional crisis struck, any movements in the Philippine economy, whether up or down, will be more sluggish than in its major regional neighbours.

The slowness of the recovery stems from both foreign (see below) and domestic factors. Prominent among the latter is the battering that agriculture received from the sequence of two climatic phenomena El Nino (which brought unusually dry conditions from late 1997 until mid-1998) and La Nina (the reverse phenomenon, involving excessive rainfall, which took the form of unusually severe typhoons in the final quarter of 1998). Consequently, the agricultural sector will have contracted by 6-7% in 1998; any marked recovery is unlikely until well into 1999. The structural constraints in this sector mean that the lost ground is unlikely to be made up until 2000.
The decline in agriculture will not have had an impact on household consumption until fairly late in the year, as election campaign spending in the first few months of the year and changes in the income tax structure will have supported it for most of 1998. Private consumption growth, though averaging nearly 4% in 1998, was slowing steadily during the year and is likely to slacken further in 1999 due to the delayed impact of recession in 1998 on employment. The sluggishness of the domestic market has depressed the manufacturing sector (whose contribution to GDP now easily exceeds that of agriculture), intensifying the difficult operating conditions with which it has had to contend since the financial and currency crisis hit in mid-1997.

3. Foreign trade

The structure of Philippine foreign trade is typical of a developing country, with exports comprising principally of raw materials and semi-finished goods and imports largely composed of capital equipment. The top two export items, namely garments and semi-conductors, took up respectively 35% and 15% of total exports in 1997. Other important exports are coconut oil, machinery, copper and fish. With respects to imports, parts for manufacture of electrical equipment and semi-processed manufactures represent almost one third of the total imports. Telecommunication and electrical machinery, as well as power generation equipment and specialised machinery, are also important imports.

The external trade balance has been sensitive to trends in foreign demand for a fairly narrow range of manufactures and commodities, and to quite marked changes in the strength of import demand, reflecting bouts of rapid growth and decline in the economy. (Export and import data are given in Reference tables 25, 26 and 27.) In recent decades, however, it has consistently been in deficit.

The deficit, which reached a low of $202m (fob) in 1986 after the severe contraction in the economy in the mid-1980s, has grown in nearly every year since, as the sustained growth in exports has been exceeded by the strong rebound in import spending. The latter was initially the result of economic recovery, but its double-digit rate in recent years reflects the import dependence of the Philippines' major export, electronics. By 1996 the trade gap had reached $11.34bn, with exports covering less than two- thirds of imports. The trade gap narrowed to $10.71bn in 1997 owing to an acceleration in the rate of growth of exports (mainly electronics) and a sharp deceleration in import growth because

of the marked depreciation of the peso since July 1997. But with the dependence of electronics on imported inputs, there is a limit to the extent that the trade gap can be closed.
Since the 1970s the contribution of traditional commodity exports has consistently tended to fall while that of non-traditional manufactures has been rising. This reflects both general volume declines (forestry products, sugar and copper are prime examples) and price weakness, as well as expanding foreign demand for Philippine manufactures, above all electronics and, to a lesser extent, garments.

Foreign trade, 1998
($ m fob unless otherwise indicated)

	Jan-Mar	Apr-Jun	Jul	Aug	Sep	Oct
Exports	6,816	7,090	2,501	2,672	2,786	2,542
% change, year on year	23.9	14.5	21.0	17.5	19.2	9.3
Imports	-8,038	-7,340	-2,465	-2,510	-2,454	-2,417
% change, year on year	-4.3	-17.8	-22.2	-23.3	-23.0	-27.4
Trade balance	-1,222	-250	36	162	332	125

Although the out turn for October was a less spectacular 9.3% rise in earnings, there was undoubtedly very strong growth in export receipts in 1998, particularly in manufacturing. The rise in sales of electrical equipment and parts made the most important contribution, as the Philippines escaped the sluggishness of world electronic markets. Clothing remained a near-zero-growth sector -- any improvement in price competitiveness stemming from the peso's depreciation against the dollar had only muted impact. Machinery and transport equipment still performed strongly, albeit far less well than in 1997, when exports more than doubled, while agricultural earnings were sustained by much higher volume sales of coconut oil (24.2% up in January-November).

Major exports
($ m; fob)

	Jan-Oct		
	1997	**1998**	**% change**
Manufactures	17,730	21,471	21.1
of which:			
electronic equipment & parts	10,555	14,092	33.5
clothing	1,942	1,968	1.3
Agricultural products	1,380	1,472	6.7
of which:			
coconut oil	463	598	29.2
Total incl. others	***20,689***	***24,387***	***17.9***

All main categories of import spending showed year-on-year declines in the first nine months of 1998 (the latest figures available). This reflected both the overall fall in domestic demand and the fact that the manufacturing sector, hard-pressed by the higher peso cost of imports and difficult credit conditions, was running down its inventory of raw materials and intermediates. The table below sets out the position. Particularly interesting is the fall in spending on electrical equipment materials (the category which covers imports of electronic components); it is unclear, as yet, how much this reflects price rather than volume trends. The sharp contraction in spending on oil resulted from both slacker growth in demand as the economy slipped into recession and the fall in world prices. Two less significant items which showed major changes, not shown in the table below, are passenger cars and rice. Spending on the former fell by 65% to $176m, undoubtedly as a result of lower volumes as demand was hit by higher peso costs and the unwillingness of banks to provide credit to prospective buyers. The more than doubling in spending on rice imports, to $487m, was the result of higher volumes, to make up the shortfall in the domestic crop.

Given the high dependence of Philippine export manufacturing on imported inputs (above all in the case of electronic goods, which accounted for 51% of all export receipts in January-September) these trends are not sustainable over a lengthy period. Inventories will need to be replenished, and the process will be aided by the recent stabilisation in the peso's value after a period of steep decline.

Imports
($ m; fob)

Jan-Sep			
	1997	**1998**	**% change**
Intermediates	11,235	8,895	-20.8
of which:			
electrical equipment materials	4,007	3,495	-12.8
manufactures	3,150	2,242	-28.8
chemicals	2,172	1,672	-23.0
Unprocessed raw materials	1,291	896	-30.7
Oil	2,116	1,570	-27.5
Consumer goods	2,394	1,943	-18.8
Total incl. others	***26,861***	***22,807***	***-15.1***

Source: National Statistics Office, as reported in the press.

The US and Japan remain the Philippines' dominant trading partners, but their share of its exports has stabilised or declined in recent years as the country has diversified its markets and, in particular, expanded its trade with its partners in the Association of South-East Asian Nations (ASEAN). As an import source, Japan has been growing in importance, reflecting its investment in manufacturing in the Philippines as well as its established dominance as a provider of aid funds.

Although overall the Philippines has been lowering its trade barriers-both tariff and non-tariff-since the early 1980s as part of its policy pledges to the IMF and the GATT/WTO, it had already begun a process of trade liberalisation within the region.

From the beginning of 1978 a mutual preferential trading agreement with other ASEAN members (Indonesia, Malaysia, Singapore and Thailand, joined by Brunei in 1984) came into effect, covering specified goods including rice, sugar, crude oil, cement and chemicals. Some 19,000 items are now covered, on which a 50% discount on import tariffs is granted. In addition, in 1992 the countries agreed to a tariff-reduction schedule leading to a free-trade area (the ASEAN Free Trade Area, AFTA) within 15 years, with a ceiling of 20% on manufactured and processed goods within 5- 8 years and 5% by the end of 15 years. An accelerated programme, reducing the schedule to seven years, was agreed for 15 priority products. In 1993 it was agreed to shorten the 15-year period to 10 years, with tariffs currently below 20% falling to 5% by 2000, and those over 20% reaching this level by 2003. For some goods the 0-5% rate will be implemented by 1998. Tariffs within ASEAN will fall to an average of 2.6% by 2003, from 13.4% in 1994. The goods excluded from the ASEAN free-trade area liberalisation are to be reduced in number, so that the programme's coverage of intra-ASEAN trade will rise from 85% to nearly 100%.

This programme is of direct relevance to intra-ASEAN investment, which so far in the case of the Philippines has tended to be inwards.
Confounding fears that the Asian crisis would lead to the raising of economic barriers (borne out when Malaysia placed restrictions on capital flows), the meeting of economic ministers of the Association of South-East Asian Nations (ASEAN) in October 1998 agreed to speed up trade liberalisation. The ASEAN Free Trade Area (AFTA) is now due to start up one year ahead of schedule, in 2002 -- though "with some flexibility". At that date all internal tariffs are to be reduced to below 5%, which the ASEAN secretariat estimates will bring the average tariff rate for traded goods in the region to 2.68%, representing half the current level.

In addition, the ministers agreed that by 2010 all investment applications emanating from other ASEAN members should be treated on the same basis as domestic proposals. By 2020 this treatment is to be extended to all investors. Finally, the meeting agreed to set up a joint surveillance system to monitor the macroeconomic stability and financial systems of member countries. This represents a departure from the ASEAN tradition by which members do not interfere in each other's affairs.

Structure of trade
($ m)

	Jan-Dec 1996	Jan-Dec 1997	Jan-Sep 1997	Jan-Sep 1998
Imports fob				
Dairy products	387.6	405.4	314.6	220.9
Cereals & preparations	841.9	770.9	604.5	793.9
Mineral fuels	3,003.8	3,074.2	2,267.2	1,587.3
Chemicals	1,617.5	1,728.0	1,333.5	853.2
Paper etc & manufactures	309.6	567.6	493.1	208.7
Textile, yarn, cloth & mnfs	1,172.9	1,275.8	993.5	886.3
Base metals	1,783.2	1,656.8	1,340.7	855.0
Manufactures of metals	404.4	510.8	391.6	302.9
Machinery excl electric	4,517.5	5,135.4	3,397.2	3,184.4
Electric machinery	4,328.9	6,465.9	4,504.0	5,343.2
Transport equipment	2,755.2	2,262.1	1,772.8	807.7
Scientific instruments etc	460.2	465.3	337.7	302.8
Total incl others	32,426.9	35,933.8	26,773.0	22,807.4
Exports fob				
Bananas	236.3	217.1	157.9	157.0
Coconut oil	570.6	674.2	462.7	597.9
Furniture	443.2	453.5	343.3	330.1
Electronics & components	8,186.7	11,077.2	7,194.4	11,107.6
Clothing	2,422.8	2,348.4	1,775.3	1,802.3
Total incl. others	***20,542.6***	***25,227.8***	***18,362.7***	***21,849.6***

Direction of trade
($ m)

Imports fob	Jan-Dec 1996	Jan-Dec 1997	Jan-Sep 1997	Jan-Sep 1998
US	6,362	7,154	5,283	4,931
Japan	7,128	7,414	5,489	4,796
South Korea	1,674	2,182	1,476	1,643
Singapore	1,740	2,171	1,563	1,374
Taiwan	1,598	1,808	1,357	1,118
Hong Kong	1,420	1,549	1,144	987
Total incl. others	***32,427***	***35,934***	***26,773***	***22,807***

Exports fob	Jan-Dec 1996	Jan-Dec 1997	Jan-Sep 1997	Jan-Sep 1998
US	6,943	8,815	6,458	7,511
Japan	3,694	4,194	3,109	3,244
Netherlands	1,115	1,664	1,165	1,678
Singapore	1,224	1,621	1,180	1,392
Taiwan	661	1,169	1,890	1,308
Hong Kong	868	1,172	864	988
Total incl. others	***20,543***	***25,228***	***18,363***	***21,850***

Source: National Statistical Co-ordination Board, Economic Indicators.

4. Commercial relations with Italy

Trade between Italy and Philippines has been affected by Asian crisis. The remarkable reduction of the global imports of Philippines have been caused by the monetary devaluation and the fragility of the economic system.

Italian exports, that increased considerably until 1997, suffered a strong reduction in 1998. Philippine exports to Italy essentially consists in food products, garments, electronic products, precious stones, fish products. Philippine imports are represented by machinery and metal products, chemicals and pharmaceutical products.

Limited Italian investments in Philippines are due to the marginal consideration Italy has for the Philippine market in the Asian area.

Trade between Italy and Philippines
(It Lire bn)

	1995	1996	1997	1998
Italian Export	459	626 (+36,4%)	680 (+8,5%)	423 (-37,8%)
Italian Import	346	266 (-23%)	208 (-21,9%)	351 (+68,9%)
Balance	113	360	472	72 (-84,7%)

Note: % change year on year

Source: Italian Official Statistics.

Section B

P H I L I P P I N E S

MARKET STUDY ON THE LEATHER INDUSTRY

1 Executive Summary

- **Philippine economic policies** are open to foreign investment in many industries except a few which are in the negative list. External trade policies are likewise opening the local market to global suppliers as tariff duties are lowered as part of the trade liberalization efforts. Special incentives are given to firms that will export a significant portion of their production or to firms entering sectors classified as priority business activities by the government.

- The **tannery industry** is concentrated in Meycauayan, Bulacan where the industry started in the early 1900s. The tannery industry enjoyed a stronghold in the local market until trade liberalization opened up the market to imported leather. At the moment, business opportunities abound in the tannery sector considering that the local industry is not capable of supplying the full requirements of the local leather footwear and leather goods industries. There is significant room for foreign investments in this business in as much as the local industry faces a lot of problems concerning raw material supply, production processes, equipment and technology, as well as effluent treatment

  A number of local tanneries are actively looking for EU business partners for the purpose of production/technical cooperation, marketing/distribution and equity partnerships.

- The **leather footwear industry** is the sub-sector that is receiving more attention from the Government owing to the Philippine shoe industry's historical significance to the economy as well as the industry's classification as an export winner. The government has commissioned the preparation of a draft master plan for the leather footwear industry in 1996 which provides a detailed plan on short-term and long-terms measures to assist the leather footwear sector survive the current constraints brought about by the weak support industry.

  The plan provides a mix of measures designed to alleviate the shortage of leather through importation as well as development of local hides and skins supply.

- The **leather goods sector** is also considered an export winner but the government has not given enough attention to this industry. There is no existing development plan for the industry at the moment although the Leather Footwear Master Plan mentions the needs of the sector in some parts of the plan. This can be explained by the fact that the leather goods industry is basically an offshoot of the leather footwear industry.

  Just like the leather footwear industry, it is confronted with lack of good leather as well as accessories. Business opportunities exist in the support sectors producing accessories and components.

- The **upholstery sector** is composed mainly of small upholsterers, upholstery suppliers and upholstery fabric traders. The industry is not huge considering that there is a relatively small market for leather furniture and for the automotive industry, the upholstered seats of new cars enter the market as part of the completely knocked down (CKD) vehicle. Many upholsterers concentrate on re-upholstery or re-modelling of furniture. There are a few firms that produce leather seat covers too.

  Basically, except for a listing of firms operating in the Philippines as upholsterers, there is very little data available on the industry as a whole.

- The **state of the leather market** offers good supply or production opportunities for EU firms. The government has adopted open trading policies to encourage the inward flow of leather into the country and to correct the current shortage of good leather.

  The leather market has not been thoroughly studied to this date thus reliable data is practically not available. The most comprehensive study done on the leather market was the one commissioned by the DTI for the preparation of a Master Plan for the Leather Footwear Sector.

  The local market relies on leather imports to augment local supply. In 1996, the local tanning industry has an estimated annual capacity of 46/5 million sq. feet of finished leather. Of this 60% is absorbed by the leather footwear industry. In addition, it has a rated annual capacity of 800 MT of sole leather. Capacity utilization, however, is kept at about 30% only due to inadequate supply of raw hides and lack of operating capital.

- As far as the state of competition is concerned, the **main competition** is coming from Asian countries. For finished leather, local firms are competing mainly against suppliers from the Republic of Korea. The Koreans supplied 72% of the import requirements of the Philippines for bovine and equine leather in 1998. In 1997, it was higher at 82%. Other Asian countries, like Hong Kong, Japan, Singapore and Indonesia are gradually grabbing market shares for Korea.

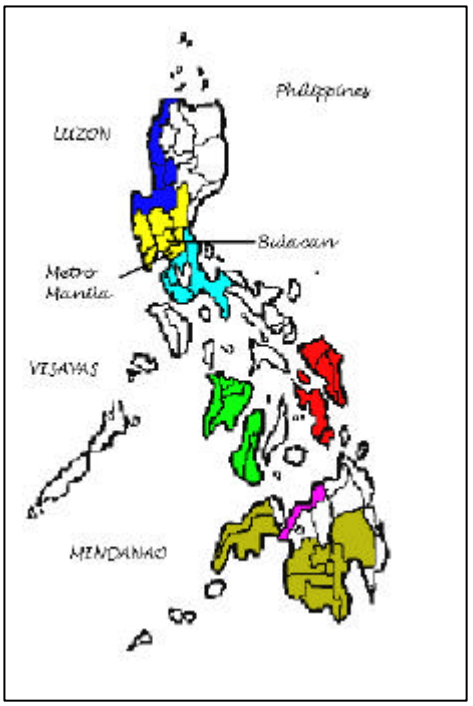
  As far as the EU suppliers are concerned, the most aggressive are italian suppliers. Among EU suppliers they cornered 47% of the EU sourced imports of bovine and equine leather in 1998.

  In the footwear industry, Hong Kong , China (PROC) and Indonesia topped the suppliers list in 1998. Three EU countries followed at a distance: UK, Germany and Italy, in the 4th to 6th position. Similarly, Hong Kong and China (PROC) were the top suppliers of leather goods in 1998.

- There are a number of **options** that EU firms can take to be able **to enter the Philippine market**. This can be done through normal trading channels, in particular, through importers and then through wholesalers/retailers. Some importers have wholesale and retail outlets also. Another way is by setting up marketing partnerships and/or establishing joint production. The local industry is open to equity partnerships as well. A number of large tanneries are looking for business cooperation opportunities with EU firms.

2. Country Regulations

2.1 Import and Export Activities



2.1.1 Policies on Imports

- Certain commodities are regulated or prohibited for reasons of public health and safety, national security, international commitments, and development of local industry
- Regulated commodities require clearances from government agencies prior to their importation.
- Prohibited commodities may not be imported under any circumstances.

2.1.2 Foreign Exchange Policies

Foreign exchange regulations have been relaxed with the issuance of the Bangko Sentral ng Pilipinas (BSP) Circular No. 5, dated September 15, 1993. The key features of this circular are:

- Foreign exchange may be freely sold and purchased outside the banking system
- Foreign exchange receipts, acquisitions, or earnings may be sold for pesos even to unauthorized agent banks or outside the banking system, retained, or deposited in foreign currency accounts, whether in the Philippines or abroad, or may be used for any other purposes.

2.1.3 Export Development Act Incentives

Republic Act No. 7844, otherwise known as the Export Development Act of 1994 (EDA), was promulgated to provide a macroeconomic policy framework to support the development of the exports sector and activities undertaken by exporters. Exporters are generally defined as those earning at least 50% of their normal operating revenue from sale of products and services abroad. The following are the key elements of the EDA:

- Institutionalization of the Export Development Council (EDC) to direct the export offensive
- Privatization of export promotions functions that can be undertaken by the private sector, including the establishment of of a world-class Philippine Trade Center
- Set-up of private led Export Financing Institution whose services shall be devoted to supporting the financing needs of the export sector
- Granting to exporter of much-needed fiscal incentives, most of them patterned after, but not as extensive as, those in newly industrializing economies.

To qualify for EDA incentives, exporters must comply with rule III, Section 1 (A) of the implementing rules and regulations (IRR) of EDA, which define exporters as those earning at least 50% of their normal operating revenue from sale of products and services abroad.

Additionally, exporter are required to secure EDA accreditation. The following are the list of the accrediting agencies and institutions:

- Bureau of Export and Trade Promotion (BETP) of the Department of Trade and Industry (DTI)

Authorized by BETP

- Philippine Economic Zone Authority (PEZA)
- Board of Investment (BOI)
- Garments and Textile Export Board (GETB)
- Subic Bay Metropolitan Authority (SBMA)
- Clark Development Corporation (CDC)
- Philippine Export Confederation Inc. (Philexport)
- Philippine Chamber of Commerce and Industry (PCCI)

Once registered with the EDA, exporters are entitled to the following incentives:

- Exemption from Presidential Decree No. 1853. or advanced Payment of Customs Duties
- Duty-free importation of machinery and equipment and accompanying spare parts until dec. 31, 1997
- Tax credit until December 31, 1999 for imported inputs and raw materials used primarily for the production and packaging of export goods and which are not readily available locally.
- Tax credit for increase in current year's export revenues, computed as follows:

Increase in Annual Export Revenue	Tax Credit (in%)
First 5%	2.5
Next 5%	5.0
Next 5%	7.5
In excess of 15%	10.0

- Tax credit for use of import-substitution of non-traditional products.

EDA incentives are in addition to the existing incentives granted by other government agencies such as the BOI and PEZA.

Policies on Export

- Most commodities are freely exportable unless regulated for reasons of national interest
- All commodity exporters may retain 100% of the foreign exchange proceeds from export and may freely use these for any purpose
- As discussed earlier, the EDA grants to qulaified exporters a set of incentives in addtion to incentives of BOI and PEZA

2.2 Foreign Investments

2.2.1 Regulation

On inward investment. R.A. No. 7042 is the basic law that governs foreign investment in the Philippines. This law, also known as the Foreign Investment Act of the Philippines (FIA) of 1991, represented a landmark piece of legislation that reversed years of protection for domestic companies and relaxed restrictions on the participation of foreigners as equity investors in local companies.

The FIA also spells out the processes and the conditions under which foreign investors may transact business in the Philippines. Since its passage, the FIA has been further liberalized, making the entry of foreign investments into the country less cumbersome.

Under the FIA foreign companies are generally allowed to conduct business in the Philippines subject to restrictions spelled out in the Foreign Investment Negative List (FINL). The FINL is a list of areas of economic activities where foreign investments are restricted or limited.

THIRD REGULAR FOREIGN INVESTMENTS NEGATIVE LIST
[Executive Order No. 11 dated August 11, 1998]

LIST A: FOREIGN OWNERSHIP IS LIMITED
BY MANDATE OF THE CONSTITUTION AND SPECIFIC LAWS

No Foreign Equity

1. Mass Media except recording [Article XVI, Section 11 of the Constitution; Presidential Memorandum Order dated 04 May 1994].

2. Services involving the practice of licensed professions save in cases prescribed by law.

a. Engineering
   - i. Aeronautical Engineering
   - ii. Agricultural Engineering
   - iii. Chemical Engineering
   - iv. Civil Engineering
   - v. Electrical Engineering
   - vi. Electronics and Communication Engineering
   - vii. Geodetic Engineering
   - viii. Mechanical Engineering
   - ix. Metallurgical Engineering
   - x. Mining Engineering
   - xi. Naval Architecture and Marine Engineering
   - xii. Sanitary Engineering

b. Medical and Allied Professions
   - i. Medicine
   - ii. Medical Technology
   - iii. Dentistry
   - iv. Midwifery
   - v. Nursing
   - vi. Nutrition and Dietetics

vii. Optometry
viii. Pharmacy
ix. Physical and Occupational Therapy
x. Radiologic and X-ray Technology
xi. Veterinary Medicine

c. Accountancy
d. Architecture
e. Criminology
f. Chemistry
g. Customs Brokerage
h. Environmental Planning
i. Forestry
j. Geology
k. Interior Design
l. Landscape Architecture
m. Law
n. Librarianship
o. Marine Deck Officers
p. Marine Engine Officers
q. Master Plumbing
r. Sugar Technology
s. Social Work
t. Teaching
[Article XIV, Section 14 of the Constitution; Section 1 of R. A. No. 5181]

3. Retail Trade [Republic Act No. 1180]

4. Cooperatives [Chapter III, Article 26 of R. A. No. 6938]

5. Private Security Agencies [Section 4 of R. A. No. 5487]

6. Small-scale Mining [Section 3 of R. A. No. 7076]

7. Utilization of marine resources in archipelagic waters, territorial sea, and exclusive economic zone [Article XII, Section 2 of the Constitution]

8. Ownership, operation and management of cockpits [Section 5 of Presidential Decree No. 449]

9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons [Article II, Section 8 of the Constitution]

10. Manufacture, repair, stockpiling and/or distribution of biological, chemical and radiological weapons [Various treaties to which the Philippines is a signatory and conventions supported by the Philippines)1

11. Manufacture of firecrackers and other pyrotechnic devices [Section 5 of R. A. No. 7183].
[1/ Domestic investments are also prohibited (Article II, Section 8 of the Constitution; Convention/Treaties to which the Philippines is a signatory)]

Up to Twenty-Five Percent (25%) Foreign Equity

12. Private recruitment, whether for local or overseas employment [Articles 27 of Presidential Decree No. 442]

13. Contracts for the construction and repair of locally-funded public works except:

a. Infrastructure/development projects covered in R. A. No. 7718; and

b. Projects which are foreign-funded or assisted and required to undergo international competitive bidding

[Commonwealth Act 541; Presidential Decree No. 1594; Letter of Instructions No. 630; Section 2a of Republic Act No. 7718]

Up to Thirty Percent (30%) Foreign Equity

14. Advertising [Article XVI, Section 11 of the Constitution]

Up to Forty Percent (40%) Foreign Equity

15. Exploration, development and utilization of natural resources (Article XII, Section 2 of the Constitution)2

[2/ Full foreign participation is allowed through financial or technical assistance agreement with the President (Article XII, Section 11 of the Constitution)]

16. Ownership of private lands [Article XII, Section 7 of the Constitution; Chapter 5, Section 22 of Commonwealth Act No. 141]

17. Operation and management of public utilities [Article XII, Section 11 of the Constitution; Section 16 of Commonwealth Act No. 146]

18. Ownership/establishment and administration of educational institutions [Article XIV, Section 2 of the Constitution]

19. Engaging in the rice and corn administration [Presidential Decree No. 194].

20. Contracts for the supply of materials, goods and commodities to government-owned or controlled corporation, company, agency or municipal corporation. [Section 1 of R. A. No. 5183]

21. Project proponent and facility operator of a BOT project requiring a public utilities franchise [Article XII, Section 11 of the Constitution; Section 2(a) of R. A. No. 7718]

22. Operation of deep-sea commercial fishing vessels [Section 27 of R. A. No. 8550].

23. Adjustment Companies [Section 323 of Presidential Decree No. 612 as amended by Presidential Decree No. 1814].

24. Ownership of condominiums [Section 5 of R. A. No. 4726].

Up to Sixty Percent (60%) Foreign Equity

25. Financing companies regulated by the Securities and Exchange Commission [SEC] [Section 6 of R. A. No. 5980 as amended by R. A. No. 8556]3

[3/ No foreign national may be allowed to own stock in financing companies or investment houses unless the country of which he is a national accords the same
reciprocal rights to Filipinos [Section 6 of R. A. No. 5980 as amended by R. A. No. 8556; Presidential Decree No. 129 as amended by R. A. No. 8366].

26. Investment houses regulated by the SEC [Presidential Decree No. 129 as amended by R. A. No. 8366].

THIRD REGULAR FOREIGN INVESTMENTS NEGATIVE LIST
[Executive Order No. 11 dated August 11, 1998]

LIST B:
FOREIGN OWNERSHIP IS LIMITED FOR REASONS OF SECURITY, DEFENSE, RISK TO HEALTH AND MORALS AND PROTECTION OF SMALL AND MEDIUM-SCALE ENTERPRISES

Up to Forty Percent (40%) Foreign Equity

1. Manufacture, repair, storage, and/or distribution of products and ingredients used in the manufacture thereof requiring Philippine National Police [PNP] clearance:

a. Firearms [handguns to shotguns], parts of firearms and ammunition therefor, instruments or implements used or intended to be used in the manufacture of firearms
b. Gunpowder
c. Dynamite
d. Blasting supplies
e. Ingredients used in making explosives:
i. Chlorate of potassium and sodium
ii. Nitrates of ammonium 4vxc & barium, copper [11], lead [11] calcium and cuprite
iii. Nitric acid
iv. Nitrocellulose
v. Perchlorates of ammonium, potassium and sodium
vi. Dinitrocellulose
vii. Glycerol
viii. Amorphous Phosphorus
ix. Hydrogen Peroxide
x. Strontium Nitrate Powder
xi. Toluene

f. Telescopic sights, sniperscope and other similar devices [Republic Act No. 7042, as amended by R. A. No. 8179].]

2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense [DND] clearance:

a. Guns and ammunition for warfare
b. Military ordnance and parts thereof [e.g., torpedoes, mines, depthchargers, bombs, grenades, missiles]
c. Gunnery, bombing and fire control systems and components
d. Guided missiles/missile systems and components
e. Tactical aircraft (fixed and rotary-winged), components and parts thereof
f. Space vehicles and component systems
g. Combat vessels (air, land and naval) and auxiliaries

h. Weapons repair and maintenance equipment
i. Military communications equipment
j. Night vision equipment
k. Stimulated coherent radiation devices, components and accessories
l. Armament training devices
m. Others as may be determined by the Secretary of the Department of National Defense [R. A. No. 7042, as amended by R. A. No. 8179]

3. Manufacture and distribution of dangerous drugs [R. A. No. 7042, as amended by R. A. No. 8179]

4. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks they may impose to public health and morals [R. A. No. 7042, as amended by R. A. No. 8179]

5. Other forms of gambling, e.g., race track operation [R. A. No. 7042, as amended by R. A. No. 8179]

6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US$200,000.00 [R. A. No. 7042, as
amended by R. A. No. 8179]

7. Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with
paid-in equity capital of less than the equivalent of US$100,000 [R. A. No. 7042, as amended by R. A. No. 8179].

2.2.2 Investment Priorities Plan (IPP)

More commonly known as the BOI law, the Omnibus Investment Code of 1987 governs the grant of incentives by the BOI to the priority investment activities. In general, only Filipino proponents are allowed to register with the BOI. However, foreign proponents may also be registered if their projects are considered pioneer or they will export at least 70% of total production. Those who wish to avail of incentives must invest in areas prescribed in the annual Investment Priorities Plan (IPP) formulated by the BOI and approved by the President of the Philippines. These preferred areas are classified as whether non-pioneer or pioneer. A preferred pioneer area is one that is important to national economic development.

The BOI grants fiscal and non-fiscal incentives:

Fiscal Incentives

a. Income tax holiday of six years for pioneer projects.
b. Additional deduction for labor expenses
c. Tax credit for taxes and duties on raw materials for export products
d. Access to bonded manufacturing/trading warehouse system
e. Exemption from taxes and duties on imported supplies and spare parts for consigned equipment
f. Exemption from wharfage dues and any export tax, duty impost, and fee.

Non Fiscal Incentives

a. Simplification of customs procedures
b. Unrestricted use of consigned equipment
c. Employment of foreign nationals.

2.3 Industrial Activities

Agriculture remains a significant component of the economy despite its slow decline in share - relative to the country's domestic output - since the middle of the 1970's. In mid-1980s, the services sector emerged as the major contributor to national output, assuming dominance over the previous years' leader, the industry sector. By the end of 1997, the major contributors to the national economy were the services sector with a 42% share, followed by industry's manufacturing subsector and agriculture at 24% and 20% respectively.

In recent years the industry and services sectors received further boosts from brisk construction activities due to the real estate boom; deregulation in banking, telecommunications, airlines, shipping, and port operations; opening of the power industry; and the implementation of vital infrastructure project through the innovative Build-Operate-Transfer (BOT) Law. The country's progression toward a true market economy was further facilitated by reduction of tariffs and abolition of quantitative restrictions to imports, and government efforts to privatize core services such as the Metropolitan Waterworks and Sewerage System (MWSS).

2.3.1 Philippine Environmental Laws

When an investment involves a proposed project or undertaking which may affect the quality of the environment, the project proponent is subject to the implementing rules and regulations of Presidential Decree (PD) No. 1586, otherwise known as the Philippine Environmental Impact Statement (EIS) System. PD No. 1586 requires a project proponent to conduct an environmental Impact Assessment (EIA) to ensure that all possible environmental effects of the projects are addressed, in line with the country's overall goal of sustainable development.

The EIA process results in the preparation of an Environmental Impact System (EIS) or an Initial Environmental Examination (IEE), depending on the location and nature of the project. The final report is submitted to the Department of Environment and Natural Resources (DENR), together with other required documents such as clearances from other agencies and endorsements of the project from local government officials. After its review, the DENR decides on the issuance or denial of an Environmental Compliance Certificate (ECC), without which the project cannot be implemented legally (eg. the proposed project site cannot be altered in any way). The ECC typically includes a number of condition which the proponent must follow during the construction and operational phases of the project. The ECC identifies all other applicable environmental laws, or guidelines which the proponent must comply with to ensure the continuos implementation of the project. If an ECC is denied, it does not prohibit the proponent from submitting a new EIS, corresponding to a new site or changes in the facilitates' design and operation.

The following areas and types of projects are considered environmentally critical and within the scope of the Environmental Impact Statement System under Proclamation No. 2146.

A. Environmentally Critical Projects

I. Heavy Industries

a. Non-ferrous metal industries

b. Iron and steel mills

c. Petroleum and petro-chemical industries including oil and gas

d. Smelting plants

II. Resource Extractive Industries

a. Major mining and quarrying projects

b. Forestry projects

1. Logging

2. Major wood processing projects

3. Introduction of fauna (exotic-animals) in public/private forests

4. Forest occupancy

5.Extraction of mangrove products

6. Grazing

c. Fishery Projects

1. Dikes for fishpond development projects

III. Infrastructure Projects

a. Major dams

b. Major power plants (fossil-fueled, nuclear fueled, hydroelectric or geothermal)

c. Major reclamation projects

d. Major roads and bridges.

B. Environmentally Critical Areas

1. All areas declared by law as national parks, watershed reserves, wildlife preserves and sanctuaries;

2. Areas set aside as aesthetic potential tourist spots;

3. Areas which constitute the habitat for any endangered or threatened species of indigenous Philippine Wildlife (flora and fauna);

4. Areas of unique historic, archaeological , or scientific interests;

5. Areas which are traditionally occupied by cultural communities or tribes;

6. Areas frequently visited and/or hard-hit by natural calamities geologic hazards, floods, typhoons, volcanic activity, etc.

7. Areas with critical slopes;

8. Areas classified as prime agricultural lands;

9. Recharged areas of aquifers;

10. Water bodies characterized by one or any combination of the following conditions;;

a. tapped for domestic purposes;;

b. within the controlled and/or protected areas declared by appropriate authorities;

c. which support wildlife and fishery activities.

11. Mangrove areas characterized by one or any combination or the following conditions:

a. with primary pristine and dense young growth;

b. adjoining mouth of major river systems;

c. near or adjacent to traditional productive fry or fishing grounds;

d. which act as natural buffers against shore erosion, strong winds and storm floods;

e. on which people are dependent for their livelihood.

12. Coral reef characterized by one or any combination of the following conditions:

a. with 50% and above live coralline cover;

b. Spawning and nursery grounds for fish;

c. Which act as natural breakwater of coastlines.

This Proclamation shall take effect immediately.

2.4 Customs Regulations

2.4.1 Import Duties & Taxes

Customs duties are levied on the dutiable value of the merchandise, by using the Home Consumption Value Method. Antidumping policy is also imposed when applicable.

There is a tariff reduction program for 1996 till 2000 that will fix rates at two different levels: 10% for intermediary and finished products and 3% for the rest.

After the year 2000 this may again change to one general tariff rate which is fixed at 5%

2.4.2 Import Documents

Several documents have to be presented to the Bureau of Customs:

- Declaration of import entry
- Commercial invoice
- Certificate of origin
- Bill of lading
- Letter of credit or bank guarantee or warehousing bond
- Inward cargo manifest
- SGS Clean Report of Findings (CRF)

2.4.3 Pre-shipment inspection by SGS

The Philippine importer will have to apply, through the Central Bank, for an Import Advanced Number (IAN) from SGS for pre-shipment inspection of goods (quality & quantity) and principally to avoid understatement of declared values. The Philippine government appointed SGS as the obligatory inspectorate enterprise to carry out pre-shipment inspections at origin for any shipment with declared value higher than US$ 500. The current SGS contract will expire in March 1998.

2.4.4. Basic Export Guidelines

Active exports and investment oriented policies coupled with imports and currency liberalization, privatization and deregulation, are the basic economic policies adopted by the Philippine Government to ensure a stable economic growth.

The government is implementing several strategies, through the National Economic and Development Authority, Board of Investments, Bangko Sentral ng Pilipinas and the Department of Trade & Industry, to promote foreign investments, reduce barriers to trade, as well as encourage rural development, regional dispersal of industries, agrarian reform and debt management.

Basic export documentation needed is an accomplished Export Declaration form which is to be submitted to the Bureau of Customs for approval of the Authority to Load. Unless required by the buyer, one need not secure an export commodity clearance.

2.4.5. Terms of Payment

The letter of credit (L/C) is actually the most commonly used mode of payment. Its confirmation is upon seller’s decision.

A Philippine importer using the L/C as mode of payment will have to request his foreign seller to submit their Proforma invoice on CIF/CNF port/airport position.

Payment for exports are normally made through banks. The foreign buyer's interest in the Philippines is represented by a local authorized agent bank (AAB) which is designated by the foreign buyer's bank. The local (AAB) will assist the exporter in negotiating the collection of the payments for exports made.

Exporters may be paid through banks by means of LC's, document against payment (D/P), document against acceptance (D/A), open account (O/A), cash against documents (CAD), prepayment/export advance, intercompany open account, offset arrangement, consignment or telegraphic transfer.

2.5 Distribution Channels

As early as the 13th century, Filipinos were already relegated to the sidelines in retail trade. With the Filipinos' inherently weak position in business and the consensus that alien control of Philippine retail trade was so entrenched it could no longer revert back to Filipino control, Government resorted to legislative measures to bar foreigners from entering the sector.

Thus, the Retail Trade Nationalization Law embodied in RA No. 1180 was enacted in 1954, making retail trade the first commercial activity to be nationalized because of its economic importance.

R.A. 1180 - An Act to Regulate the Retail Business: This provides that no license will be issued to any person who is not a citizen of the Philippines and to any association, partnership or corporation not wholly owned by citizens of the Philippines, to actually engage in the retail business, or to establish, or open additional stores or branches for retail business.

Now, with the trend towards global trade liberalization, the Government plans to open up the retail trade sector to foreign investments.

3 State of the Industry

3.1 Tanning Industry

3.1.1 Raw Material Supply and Trade

There is a lack of traditional available material, such as the cow hide due to the inexistence of a structured cattle farming industry, no organized system in slaughtering of animals, decreasing livestock of cattle and the high import tariff imposed on imported raw hides and chemicals.

A more organized type of livestock raising for the meat processing industry to serve the supermarkets is emerging. There is only one organized cattle raising farm, Monterey Farms, which slaughters and produces 35 raw hides a day. An efficient drum dyeing technique needs a minimum of 200 skins.

In the Philippines, neither the farmer nor the slaughterer gives hides and skins more than cursory importance. Livestock are subject to skin attack and to damage by thorns, barbed wire, the horn of other animals, and by branding, most often in the most valuable parts of the hide. There are three malpractices which were observed in slaughter houses: (i.) practice of pouching to collect blood for "dinuguan"; (ii.) removal of a big portion of the tail for "kare-kare"; and lastly, (iii) removal of adhering meat and fat from the flesh side of a fresh hide. These practices should be minimized if not completely eliminated because these result in the downgrading of hides and skins. Improper flaying is one of the major problems faced by the local leather industry. Tanners complain about flay cuts, gouges and marks.

The commonly used hides and skins for leather production in the Philippines include mainly cattle, carabao and goats. The hides and skins are grouped according to several classes. For first class (A) hides, the Tanners Association of the Philippines (TAP) claims that the types in demand are Crazy Horse, Nubuck, Pull-up, Pull-Side, and Side at Nappa. For second class (B) hides, the popular ones are Side Softy and Softy.

Cow/calf hides and goat/kid skins are the most important raw materials in leather production, the domestic supply of which is highly dependent on the livestock industry of the country. The Philippine livestock industry, however, is not that developed and is need of great assistance. Furthermore, the current livestock industry is primarily catering to the food sector rather than the leather tanning industry. Thus, local hides and skins are not usually properly cut for the tanning industry.

Aside from the limited supply of hides and skins due to the lack of commercial livestock farms, local hides and skins are not of good quality. This is due to several factors: (i) poor caring of animals resulting in skin damages; and (ii) improper flaying of cowhides in slaughterhouses. The leather industry also competes with the food industry considering that hides and skins are also used by the "chicharon" food industry.

The estimated production volume of livestock is shown in the table below. The TAP and the Animal Products Development Centre (APDC) estimate hides at least 10-15% of gross livestock weight.

Total Production
(in metric tons, liveweight)

Type	Carabao	Swine	Cattle	Goat
1996	99,240	1,296,470	232,340	70,160
1997	106,140	1,370,780	251,470	70,860
1998	113,050	1,406,592	260,610	71,950

Source: National Meat Inspection Commission

To augment the domestic supply of leather, tanners import rawhides and skins from Australia, USA, Brazil, Bangladesh and Taiwan. From Europe, kangaroo hide was imported from Denmark while swine hides & skins were imported from Belgium, Denmark, France, and the Netherlands in 1997. The imports of rawhides and skins are relatively small and have been declining by about 15% annually from 1992-1994.

In addition to rawhides and skins, wet blues are also imported from India, Pakistan, USA, Canada, Australia, Brazil, Paraguay, Argentina and Uruguay.

Philippine Imports of Hides, Skins and Furskins, raw
(In US dollars, FOB)

Code	Commodity	1996	1997	1998
21	Hides, Skins, & Furskins, raw	897,357	1,541,113	2,323,497
211	Hides and skins, excl. furskins	894,992	1,526,134	2,323,497
2119911	Swine (incl. peccary) hides and skins, raw	677,456	1,444,714	2,162,875
212	Furskins, raw, other than hides & skins	2,365	14,999	0

Source: NSO, Foreign Trade Statistics

Philippine Imports of Hides, Skins and Furskins, raw
(Gross weight in kg.)

Code	Commodity	1996	1997	1998
21	Hides, Skins, & Furskins, raw	1,774,918	2,327,048	2,276,529
211	Hides, skins, except furskins	1,774,662	2,309,494	2,276,529
2119911	Swine (incl. peccary) hides and skins, raw	1544134	2,236,447	1,927,385
212	Furskins, raw, other than hides & skins	256	17,554	0

Source: NSO, Foreign Trade Statistics

In 1996, swine hides and skins were imported from Australia, Belgium, Canada, Taiwan, Denmark, Hong Kong, Japan and the Netherlands. In 1997, PROC (China), France, India, and Korea were added to the list of import sources. (NSO. Foreign Trade Statistics)

Import of Swine (incl. peccary) Hides and Skins, Raw (PSC 2119911) by source

	Volume in net kg.				Value in US$ FOB		
Country	**1996**	**1997**	**1998**		**1996**	**1997**	**1998**
Korea, Rep of	0	231.000	1.414.802		0	67.130	395.638
Belgium	25.378	399.125	193.637		18.725	279.454	100.133
Taiwan	1.140.689	407.463	68.866		445.806	158.264	41.155
France	0	48.000	72.494			25.828	39.124
Sweden	0	0	46.186			0	31.497
Singapore	0	0	41.905			0	14.080
Japan	12.318	202.096	36.609		2.990	213.546	11.598
China, PRO		79.652	28.878			149.893	10.946
Canada	23.600	143.085	24.008		19.824	105.808	9.546
Netherlands	50.382	301.113	0		27.447	200.319	0
Denmark	228.431	263.336	0		145.450	177.451	0
India		25.368	0			30.442	0
Australia	15.750	40.256	0		12.776	28.215	0
Hong Kong	7.298	22.381	0		4.438	8.364	0
Total	**1.503.846**	**2.162.875**	**1.927.385**		**677.456**	**1.444.714**	**653.717**

Source of basic data: NSO, Foreign Trade Statistics, Bureau of Export Trade Promotion

The use of reptile skins had also gained popularity in the past, especially for export, but these types of skins are expensive due to limited supply and the growing environmental advocacy for the protection of rare species of wildlife. (DTI, Oct. 1996, p.4-19)

A 1991 report found that there is a high market value for top-quality reptile and amphibian leather, despite environmentalist (Green Movement) propaganda to discredit the use of these material as finished leather by-product for trade. The resistance is coming mostly from the traditional cattle producing countries, who do not realize that in tropical countries like the Philippines, the abundant supply of reptiles and amphibians can contribute to the ecological balance of fauna in the country, as well as maximize it's use in the international trade.

According to Edwin Porciuncula of JCP Tooling Leather, Meycauayan Tanneries are faced with rising prices of the basic materials (hides). There is a shortage (June 1999) of cowhides in Luzon and prices are climbing. The average price of cowhides (as of April 1999) sourced from Luzon ranged from Pesos 400 per piece to 830 per piece depending on where you source them.

Cagayan:	Php 450 per piece
Isabel:	450-500
Nueva Ecija:	450-550
Ilocos:	400 (medium size only)
Baguio:	600 – 800
Manila:	700
Tagaytay:	600 – 650
Quezon :	400 – 500
Cavite	600 – 830
Laguna	700 - 800

3.1.2 Geographical Location

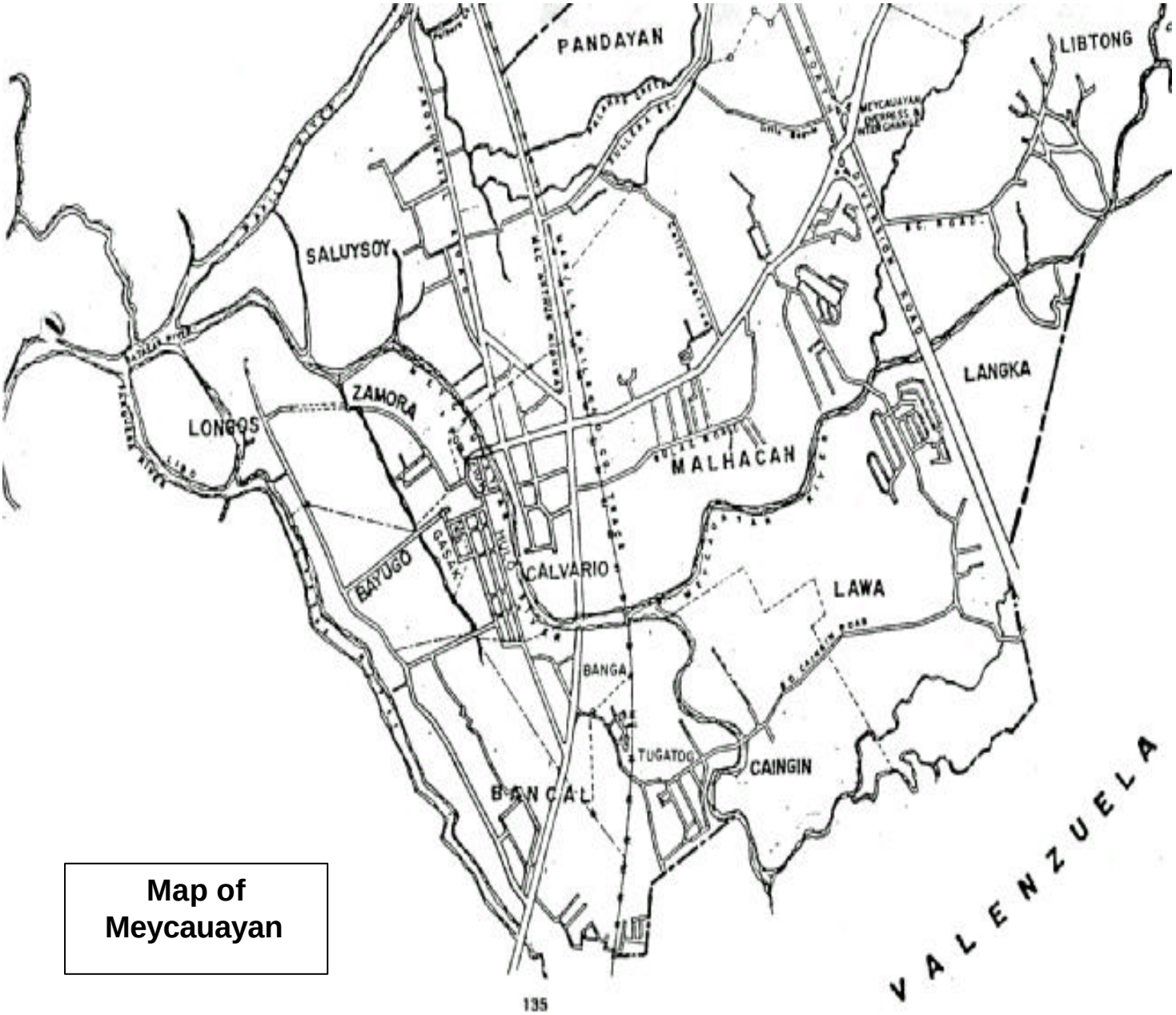
It is believed that the Philippine tanning industry was started by Chinese craftsmen and first established in Meycauayan, Bulacan in 1903. Around 1918, it was recorded that around 50 firms comprise the tanning industry. The Tanning Unit of the Animal Products Development Center records the past or present existence of tanneries in various parts of the country as follows:;

MEYCAUAYAN

The number of tanning firms peaked in 1989, when 152 tanning units were registered. The major concentration of these firms remain in Meycauayan, Bulacan. As of 1996, there are around 100 leather tanning firms in the Philippines, which are mostly small and medium sized. Because majority of the tanning and leather manufacturing firms is located in Meycauayan, it is considered the center of the tanning industry in the Philippines.

Province	Type of tanneries
Ilocos Norte	Cottage tanneries
Ilocos Sur	Cottage tanneries
Pangasinan	Cottage tanneries
Bulacan	Cottage as well as small to large tanneries
Rizal/Metro Manila	Medium to large tanneries
Cebu	Cottage tanneries
Zamboanga del sur	Cottage tanneries

The number of tanning firms peaked in 1989, when 152 tanning units were registered. The major concentration of these firms remain in Meycauayan, Bulacan. As of 1996, there are around 100 leather tanning firms in the Philippines, which are mostly small and medium sized. Because majority of the tanning and leather manufacturing firms is located in Meycauayan, it is considered the center of the tanning industry in the Philippines.



Map of Meycauayan

Number of Tanneries in Bulacan by area and size of firm, 1998 (Unofficial Tally)

Area	Number	Small	Medium	Large
Bancal*	11	6	2	3
Banga*	4	1	2	1
Caingin*	3	1	2	
Calvario*	1			1
Camalig*	1	1		
Hulo*	4	3		1
Libtong*	1		1	
Tugatog*	35	16	17	2
Marilao	1			1
Guiginto	1			1
Bulacan	1	1		
Total	63	29	24	10

Source: Willie Chua, TAP Secretary and Mr. Pempe Porciuncula, former President of MTCC, as reported by the De La Salle University Study, 1998
*Notes: * based in Meycauayan, Bulacan*

3.1.3 Current Situation of the Industry

The imposition of import and foreign exchange controls in the 1950s made imports very expensive and gave the local tanning and leather manufacturing firms a good control of the domestic market. In an interview with the current TAP President, Mary Lazaro, (also owner of Conching Hermoso Tannery) she admits that the industry received too much protection that the domestic market became a more attractive market for most tanning firms and discouraged them from exporting. Mark-ups for the local market went as high as 30% compared to about 5% in the export market, Mary Lazaro adds, that was why it made more business sense to her parents to focus on the local market.

However, the industry climate has changed in the mid-1990s, when the tariff duties of leather went down. Ms. Lazaro was badly hit by this development and made the industry aware of the need to compete globally if they will survive even in the local market.

A 3% tariff duty on imported raw hides and skins will apply until 2003. By year 2004, the tariff rate will be adjusted to 5%. In the case, of finished leather, a 10% tariff duty applies until year 2003. This will be reduced to 5% by 2004. For tanning extracts and pigments, a 3% duty applies until 2003 and a 5% duty beginning 2004. This means that the tanners have until 2003 to re-adjust their operations to achieve global market standards.

There is limited assistance coming from the Philippine government to help the tanning industry in their re-adjustment process. Assistance from the European Commission was given in the late 1980s and early 1990s to provide technical assistance to a number of tanning and leather goods companies as well as assist them in developing a globally competitive business. In the first phase (1988-1991), the Integrated Leather Program was managed by CITEM and the Chamber of Industry and Commerce of Offenbach am Main while the second phase was managed by CITEM and the BLC Leather Technology Centre. The EC further financed a business cooperation program managed by ECCP and the BLC. Local tanneries participated in these projects to adopt European standards and technology as well as find European partners to form strategic production, marketing and financial alliances.

Moreover, the current leadership of the TAP is also taking a pro-active stance in making the Philippine tanning industry a global player. Many tanneries now are being managed by young and more dynamic second and third generation owner-managers who are more keen in keeping up with global technology changes and eager to modernize the management of tanneries. Industry leaders are more forward-looking and market-oriented and willing to invest in technology and manpower development to promote efficiency and productivity. In environment related concerns, a number of tanneries have already invested up to 50 million pesos to install effluent control systems in their plants or as a common facility.

TAP is also tapping the United Nations Industrial Development Organization (UNIDO) to co-finance a common effluent treatment plant in the Tugatog area in Meycauayan. TAP is also seeking the assistance of other international agencies to address the industry's development concerns.

Even with limited support, the tanneries industry has recorded significant achievements. Over the last 5 years, there had been considerable improvements in the performance of the local tanning and leather manufacturing industry. Philippine exports of leather has grown significantly as shown in the table below:

Exports of Philippine Leather
('000 US$ FOB)

Year	Exports	% change
1994	17,804	
1995	40,000	125
1996	384,152	860
1997	530,000	38

Source: BETP

TAP President, Mary Lazaro, also emphasized that for many years the local tanning industry has been actually contributing to the country's export performance, but indirectly. Locally made leather are sold to leather footwear and leather goods manufacturers that export their products.

The tanning industry is positioning itself to be a global player, indirectly or directly, and is now resolved to the idea of allowing foreign competition. The tanning industry still has to solve a wide range of problems from raw material inputs, production efficiency, product quality to environmental concerns.

Given the current state of the domestic raw material base for leather as well as hides/skins, the leather- based industries have a pessimistic outlook for the tanning industry. Local leather users are still of the view that locally manufactured finished leather will only be as many and as good as the basic raw materials inputed into the production process. Moreover, the process of converting the rawhides to leather contributes to lowering the quality output of leather with improper tanning and post tanning processes. Leather using industries are inclined to import their leather requirements to augment local supply.

3.1.4 Current Processing Capability

The manufacture of leather involves several processes from pre-tanning, tanning, post tanning and finishing operations. Aside from rawhides, the leather industry imports chemicals, vegetable tanning extracts and dyes which are used to process animal hides and skins into commercial leather products. Imported treatment chemicals are very expensive. Depending on the kind of finished leather desired, various tanning methods and materials are employed. Upper leather, sole leather, lining and splits are the end products of leather tanning.

The leather tanning industry has an estimated annual capacity of 46.5 million sq. feet of finished leather, 60% of which is absorbed by the leather footwear industry for uppers leathers, In addition, it has a rated annual capacity of 800 metric tons of sole leather. However, annual utilization of existing industry facilities stands at only 30%, which is way below its rated capacity. The grossly low utilization rate is attributed mainly to the inadequate supply of rawhides and lack of operating capital.

The production cost structure of local tanners as reflected in 2 reports follows:

Year	1994	1998
Raw hides	51.5	55
Chemicals	21	30
Other (fuel,/power/wages/ supplies/depreciation)	27.5*	15
Total	1	100

Source: PDCP 1995 study as reported in the 1996 DTI Masterplan, p.4-22 (1994); DLSU Report (1998)

*Notes: * total of labor and power; Since the objective of this report is to compile available information, the marked disparity of these figures from two sources should be verified in future studies.*

Raw hides account for a major share of total production cost. The tanneries are concerned with the availability and rising prices of raw hides and skins. Of particular concern also to them is the low ratio of good portions derived from raw hides and skins. According to TAP, the ratio of good portions from raw hides range from 25% to 50% of the raw hide.

The high cost of imported chemicals and rawhides force many tanneries to process low-grade leather. Importation of rawhides is resorted to because of the inadequate domestic supply. On the other hand, those available locally are of inferior quality compared to the imported ones. The high demand for leather due to low leather supply has not encouraged some tanneries to improve leather production. Tanners have been accused of cutting short the finishing process that results in poor quality leather even if their raw materials are imported.

Thus, because of the low quality and inadequate supply of locally available leather, leather footwear and leather goods manufacturers have resorted to leather importation. Imported leather is said to be cheaper by about 30% or an average cost of P30 per sq. ft. despite the 20% tariff levied on them.

The leather tanning industry is faced with a number of technical challenges:

1. Threat of stricter ecological measures that might result in closure of factories because of the lack of pollution control measures for treatment of chemical wastes. Tanneries are considered as among the most pollutive industries in the country.
2. Inefficiency in production
3. Lack of occupational safety in the workplace due to the absence of protective measures from exposure to chemicals
4. High labor cost, lack of labor and labor unrest

The local tanning industry lacks technical knowledge in the use and availability of chemicals which can be used in the different stages of production. There is also a lack of proper management and scientific knowledge skills in production techniques, cost calculation, quality control systems which deter the industry's competitiveness in the market.

In general, machineries are outmoded specifically in the area of tanning, re-tanning and finishing techniques. The industry is also dependent on imported chemical treatments with a high import tariff (50% import duty) imposed by the government, which translates to the industry's uncompetitiveness in the local & export market.

Tanneries, especially the smaller ones, have poor or no proper environmental protection mechanism within the individual units, specifically the waste water treatment which prevents pollution of river beds.

In the case of reptile and amphibian leather, there is a lack of sufficient technical knowledge in the proper use of chemicals in tanning and finishing techniques of such leather. There is also insufficient knowledge on the general application of the Washington Convention (CITES) in international trade. Technical know-how in the propagation, preservation and collection of reptile and amphibians grown in the wild does not exist, due to improper farming techniques. An estimated 50% of snakeskins caught by fishermen together with their regular catch of fish are killed, thrown back into the water.

3.1.5 Profile of Major Companies

There are at least 10 tanneries, classified as large, with highly mechanized operations and using superior chemicals in treating leather are based in Meycauayan, Bulacan, and family-owned. As such, Meycauayan is acknowledged as the center of the Philippine tanning industry.

Major Tanneries or Leather Manufacturing Firms classified as large enterprises

	Location	Tannery / Leather Manufacturing	Owner / Manager
1	Bancal*	E. A. Alarilla Tannery	Eddie Alarilla
2	Bancal*	Eastern Tannery Corp	Mariano Blanco
3	Bancal*	Valenzuela	Willie Chua
4	Banga*	Cuero Hermoso	Reuben Hermoso
5	Bulacan	Philippine Integrated Leather	n.a.
6	Calvario*	Conching Hermoso	Consolacion Hermoso Lazaro
7	Calvario*	Vicente Hermoso Tannery	Vicente Hermoso
8	Hulo*	Leoncio Carlos	Renato Carlos
9	Tugatog*	Roberto Rosales Tannery	Rechilda Rosales
10	Tugatog*	Great Buffalo Mfg. Corp.	Elton Co
11	Marilao	Ruma Leather Industry	Ruperto Magbuo
12	Guiginto	Uni-Leather Inc.	Agapito Miranda
13	Malabon, M.Manila	Philippine Tannery Co. Inc	Benjamin Gana
14	Navotas, M. Manila	Philippine Leather Manufacturing	Cheng Hong

Notes: some firms listed above may be temporarily closed
** Based in Meycauayan, Bulacan*
*** n.a. – not available.*

A Directory of Hide and Skins Tanneries in the Philippines grouped according to size is attached. A copy of TAP members with detailed descriptions of the companies is also attached.

3.1.6 Development Plan of the Industry

For many years, there was a lack of organized efforts among leather tanners to work together, particularly in developing plans and visions for the industry. The government has not also been as active as the industry wanted in looking after the development needs of the leather tanning industry. Basically, there was a lack of appreciation by the government of the tanneries' contribution to the economy. Recent developments show that the industry and government now realize the importance of jointly undertaking reforms to improve local leather production.

At present, the government is studying ways to improve local hides and skins, taking initial steps toward integrating leather industries, promoting better tannery effluent control and exposing the tanning industry to foreign competition. Likewise, the TAP is actively involved in addressing the concerns of the industry, particularly, with regards to developing better effluent control as well as improving product quality.

At the moment, the development plan of the industry is integrated in the master plan for the leather footwear sector, which is classified by the government as an export winner. Among the development concerns related to the promotion and development of the tannery industry as a supplier of leather to the local footwear sector include:

1. lack of locally produced raw materials
2. poor quality of local raw hides/skins as well as local finished leather
3. increasing prices of raw hides/skins
4. competition with imported finished leather
5. high cost of chemicals
6. technical smuggling of finished leather
7. tariff reduction for finished leather

As a matter of strategy, certain activities and programs are being discussed, considered as well as for some, gradually implemented.

3.1.6.1 Hides and Skins Improvement Program

The main concern of the tanning industry is the shortage and poor quality of local hides and skins. The APDC, NMIC and TAP are working jointly in developing and gradually implementing a Hides and Skins Improvement Program.

The Bureau of Animal Industry through the Animal Products Development Center (APDC) is credited for its ongoing efforts to develop a program to improve hides and skins. Following a survey conducted in 1999, APDC proposed a Hides and Skins Improvement Program which will be spearheaded by APDC and the National Meat Inspection Commission (NMIC). The program is aimed at reducing if not eliminating defects in the preparation of hides and skins. This will be done through proper training (e.g. upgrading skills of butchers/hide dealers), the use of suitable equipment and tools (e.g. hoist, flaying knife and captive bolt) and installation of better storage facilities.

A project called “Better Hides for Better Leather” seminar was launched in April 1998 with the assistance of APDC. A follow-up seminar was held in July 1999. Both seminars were geared towards training butchers, slaughterhouses and tanners on proper handling of hides and skins.

APDC is also working on developing and finalizing a plan to categorize hides and skins. A joint committee comprising representatives from the local tanners and government officials was formed to thresh out problems and introduce solutions related to raising the product standards for rawhides and finished leather in order to command better prices in the market. At present, the committee has come out with a draft called “Standards for Classification According to Quality” which will serve as a guide to ensure the quality of hides and leather products that are currently available on the market. Also, the group has envisioned to draft standards for flaying procedures in order to correct the mistakes of slaughtering animals whose skins and hides are wasted because of wrong flaying procedures.

3.1.6.2 Efforts to encourage closer business cooperation among local tanners

TAP under the leadership of Mary Lazaro is taking an active role in reorganizing the industry to encourage closer business cooperation among tanneries. In the past, the tanneries have enjoyed significant trade protection that the industry survived with their “old ways” of production and marketing. With the entry of foreign competitors in the domestic market as a result of trade liberalization, the tanneries realize now that to survive they have to be globally competitive. Also, they must cooperate more closely to corner big export orders and must upgrade production operations to improve product quality and manufacturing efficiency. They also recognized the importance of environment friendly operations, if they can continue operating their plants.

This is exactly what the leather using industries are hoping to develop. The DTI master plan has identified the need to set up industry cooperators from within the support industries. Parallel to the industry cooperators in the footwear sector, a similar core group will be organized from among the firms in the leather tanning and components/accessories sectors. This group will initiate the linkages and work closely with the footwear industry cooperators on the technology improvements that will correspond to the requirements of the shoe industry, including product standardization and other common areas of cooperation.

3.1.6.3. Importation of Hides/Skins and Finished Leather

Because of the inability of the local tanning sector to supply all the needs of the leather using industries, the importation of leather raw materials is a critical element of the master plan, as a short-term strategy. The DTI study, however, notes the importance of the move to let the leather tanning association take care of bulk importation for both raw hides/skins and finished leather to enable them to sustain/expand their operation and gain experience and establish linkages with other world producers. This will also avoid creating conflicts between the tanning and leather using industries.

On the aspect of tariff reduction for finished leather, the footwear and leathergoods industry and the leather tanning industry have to work together to reconcile their position. A drastic tariff reduction would kill the leather tanning industry because finished leather would then be levied the same tariff rates as raw hides/skins which are imported by industry for the manufacture of leather.

3.1.6.4 Production Improvements of Tanneries

Up until 1996, while several big manufacturers have invested in updated technology and equipment, locally tanned leather is still perceived as low quality. The low quality of finishing has been particularly emphasized by the footwear and leather goods industry. (Major improvements have taken place since then.) Nonetheless, as the leather footwear sector constitutes the bulk of their market, the leather tanners should coordinate closely with the shoe industry for their specific quality requirements and should anticipate changes in specifications of leather materials to conform to standardization and product quality requirements. In fact, the shoe and tanning sectors should work together for establishing the product quality standards for leather footwear and leather goods industries.

3.1.6.5 Development of alternative raw material sources

Continuing R&D for alternative raw material sources and development is a proposed measure to ensure longterm supply and sustainability of the raw materials for leather using industries.

Research will focus on alternative indigenous materials which have the potential to complement leather or serve as its substitute. Experiments will have to be conducted to test various types of processing. Like wise raw material testing in terms of strength, quality and other considerations should be undertaken.

3.1.7 Environmental Issues

In an article by Mary Lazaro, current TAP President, notes that a major portion of the tannery wastes comes from the early part of the production process. In the manufacture of chrome tanned leather from cattle hide the initial stages of soaking results in a heavily polluted water containing mostly salt from the curing, including soluble proteins and manure.

The government is watching closely the operations of tanneries because of the high level of toxic wastewater from the tanneries that goes untreated into the river system. This is particularly true in Bulacan, where the current Governor has put a high priority on the environmental management. For many years, most tanneries have been operating with no or substandard effluent treatment. In recent years and under serious threat of closure by the government, companies have reacted favorably to government calls to install effluent control systems in plants.

As reported by the TAP, the tanners have invested to improve tannery effluent treatment. To date, tanners have spent some Php 50 million in improving wastewater treatment. Serious efforts by DENR to control tannery pollution have resulted in the 60% reduction of tannery effluent.

Through an EC financed project in the mid-1990s, a number of tanneries received technical assistance in the European standard installation of pollution control systems in their plants. Other tanneries are exploring local approaches for installing pollution control systems.

A common wastewater treatment plant (WWTP) is also being planned in the Tugatog area where majority of the tanneries is located. TAP has requested UNIDO to fund a common wastewater treatment plant. UNIDO has sought the advice of NEDA and the DENR. In the meantime, 6 tanneries in the Kaingin-Tugatog area have pledged to support to this facility. A location for the WWTP has been chosen. This will be at the lot of G. Arthur Soriano.

TAP also reported that UNIDO financed the training of 3 tanners. The 3 beneficiaries participated in a pollution seminar in Madras, India.

Other aspects relating to environmental or ecological management include:

1. installation of safety precaution measures amongst workers in the tanneries
2. protection of existing species of reptiles and amphibians so as not to destroy the country's ecological balance. Scientific farming methods are necessary to maintain balance

3.2 Leather Footwear Industry

3.2.1 Geographical Location

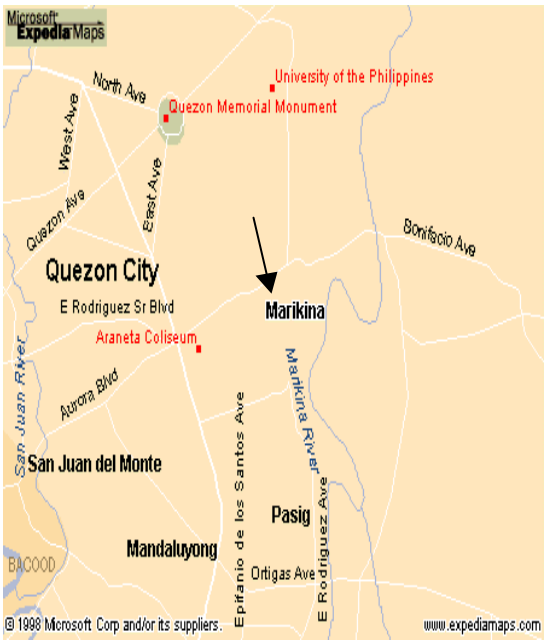
Although there is an estimated 2,000 manufacturers of leather footwear excluding sports and slippers/sandals, only 914 are registered with the Department of Trade and Industry (DTI). As a result, it is difficult to arrive at exact figures of the overall number of footwear manufacturers. But because registered
firms constitute the primary producers of shoes and dictate the progress of the sector, the data collected represents the general performance and situation of the industry.

The concentration of companies is mainly in the NCR (national capital region or Metro Manila) and the surrounding regions of Bulacan and Laguna. This is greatly due to the presence of tanneries and other major component suppliers of the footwear industry in general. Several ventures do exist outside of the major area but are either small/micro to be of overall significance or engage in sub-contracting for larger firms. The following illustrates the distribution:

Registered Footwear Manufacturers by Location and Size

LOCATION	TOTAL	PERCENTAGE DISTRIBUTION
Marikina	536	58.64
Laguna	354	38.73
Bulacan	9	0.98
Metro Manila	15	1.64
TOTAL	914	**100**

Source: DTI



The most important area is Marikina where shoe manufacturing has become a traditional business venture. In terms of strategic location, it enjoys an advantage over its counterparts in other areas because of its accessibility to the main market, Metro Manila. 58.64% of the total number of footwear manufacturers can be found here, wherein a majority can be classified as large- to medium-sized companies.

3.2.2 Current Situation of the Industry

3.2.2.1 Imports/Exports

Imports have begun to increase by an average of 32% per year. In 1997, leather footwear imports amounted to $ 6.65 M with products coming mainly from Hong Kong, Indonesia, Great Britain, Italy and the US. With trade liberalization underway, the biggest threat to the local market is the entry of large volumes of cheap finished goods that could drastically cut the market share of local companies.

Leather Footwear - Imports (Value In USD, FOB)				
Code	**Commodity**	**1996**	**1997**	**1998**
8514801	Footwear covering the ankle, w/ outer & upper soles of leather (pair)	46.822	61.457	8.986
8514809	Other footwear, n.e.s., w/ outer soles of leather & uppers of leather (pair)	910.848	1.035.247	593.283
8514901	Footwear covering the ankle, w/ outer soles of plastics or rubber and uppers of leather (pair)	411.516	1.104.437	663.494
8514909	Other footwear with outer soles of rubber or plastics and uppers of leather, n.e.s. (pair)	2.814.347	381.748	3.718.519
8515201	Special sports footwear w/ outer soles of leather or composition leather and uppers of textile materials, equipped with spikes, studs, bars and the like (pair)	31.565	N.A.	11.322
8515209	Other footwear with outer soles of leather or composition leather and uppers of textile materials (pair)	254.564	1.382.006	315.519
8515909	Other footwear with outer soles of other materials and uppers of textile materials (pair)	350.170	79.772	53.485
8517009	Other footwear with outer soles of other materials and other materials, n.e.s. (pair)	1.775.438	2.604.877	1.950.876
TOTAL		**6.595.270**	**6.649.544**	**7.315.484**

Leather Footwear - Imports (Quantity in Pairs)				
Code	**Commodity**	**1996**	**1997**	**1998**
8514801	Footwear covering the ankle, w/ outer & upper soles of leather (pair)	221	61.457	1.584
8514809	Other footwear, n.e.s., w/ outer soles of leather & uppers of leather (pair)	140.066	81.858	41.417
8514901	Footwear covering the ankle, w/ outer soles of plastics or rubber and uppers of leather (pair)	105.786	286.145	79.311
8514909	Other footwear with outer soles of rubber or plastics and uppers of leather, n.e.s. (pair)	411.417	624.527	594.144
8515201	Special sports footwear w/ outer soles of leather or composition leather and uppers of textile materials, equipped with spikes, studs, bars and the like (pair)	19.045	N.A.	1.044
8515209	Other footwear with outer soles of leather or composition leather and uppers of textile materials (pair)	135.626	272.488	15.422
8515909	Other footwear with outer soles of other materials and uppers of textile materials (pair)	61.580	79.772	48.486
8517009	Other footwear with outer soles of other materials and other materials, n.e.s. (pair)	326.652	494.781	361.029
TOTAL		**1.200.393**	**1.901.028**	**1.142.437**

Only recently has the footwear industry in general been considered an export winner. From 1994 to 1998, the export of leather footwear displayed a series of erratic fluctuations.

Leather Footwear - Exports
(Value in US Dollars, FOB)

Code	Commodity	1997	1998
8514809	Other footwear, n.e.s., with outer soles of leather and uppers of leather (pair)	220.594	935.222
8514909	Other footwear with outer soles of rubber or plastics anmd uppers of leather, n.e.s. (pair)	88.347.502	42.797.432
8515201	Special sports footwear with outer soles of leather or composition leather and uppers of textile materials, equipped with spikes, studs, bars, and the like (pair)	21.978	
8515209	Other footwear with outer soles of leather or composition leather and uppers of textile materials (pair)	130.065	53.498
8515909	Other footwear with outer soles of other materials and uppers of textile materials (pair)	389.173	317.754
8517009	Other footwear with outer soles of other materials and uppers of materials n.e.s (pair)	948.473	318.435
TOTAL		**90.057.785**	**44.422.341**

Leather Footwear - Exports
(Quantity in Pairs)

Code	Commodity	1996	1997	1998
8514809	Other footwear, n.e.s., with outer soles of leather and uppers of leather (pair)	96.400	43.894	85.828
8514909	Other footwear with outer soles of rubber or plastics and uppers of leather, n.e.s. (pair)	5.862.340	7.808.384	3.964.231
8515201	Special sports footwear with outer soles of leather or composition leather and uppers of textile materials, equipped with spikes, studs, bars, and the like (pair)	63.024	1.332	N.A.
8515209	Other footwear with outer soles of leather or composition leather and uppers of textile materials (pair)	9.082	29.412	8.339
8515909	Other footwear with outer soles of other materials and uppers of textile materials (pair)	298.764	156.202	72.717
8517009	Other footwear with outer soles of other materials and uppers of materials n.e.s (pair)	117.221	281.814	146.982
TOTAL		**6.446.831**	**8.321.038**	**4.278.097**

The leather footwear sub-sector has the most lucrative potential in footwear exports, accounting for more than half of the total footwear exports. Unfortunately, growth rate is negative due mainly to regional financial crises resulting in lower profit margins and a reluctance of companies to participate in international trade. In 1999, exports of leather footwear for the first quarter amounted to $7.17 M FOB as opposed to $ 14.90 M during the same period in the previous year.

3.2.2.2 Local Market

The Philippine market is considered the priority of the moment for the industry. The companies cite higher profit margin, less bureaucratic complications, minimal delivery-time pressures and the absence of language and cultural barriers as reasons. Most companies operate on a day-to-day basis instead of a more long-term outlook.

Local consumers have shown a behavior of buying several pairs of leather footwear of different styles within a relatively short time-span. The fashion-conscious nature of Filipinos in terms of clothing and apparel can explain this tendency. Every year, the average disposable income increases steadily leading to a relatively more extravagant lifestyle as compared to previous years. Style and quality more often dictates preferences.

It was found that the 15-49 age group is more likely to consume signature branded or high-quality goods and the 15-19 bracket representing the trend setting consumer. Working professionals, fashionable teenagers, business entrepreneurs belong to this category. On this basis three market segments were formulated: High-End Line (signature branded, expensive, stylish design, high-quality; for the upper-class consumer); Middle-End Line (relatively affordable, good quality, wider range of styles; intended for the upper- to middle-class); Low-End (inexpensive, less stylish and less durable; for cost-conscious consumers). High-end shoes are more often imported signature brands while local companies focus more on the upper-middle to low end which have a more significant market share.

Gender-wise, a major part of the market is focused on the female consumer. Because women are found to have the greater propensity to buy and are more sensitive to quality and price, product lines tend to cater more to the ladies' shoes. As a result 86% of manufacturers produce such lines, while 47% of that number specialize in ladies' footwear.

3.2.2.3 Market System

The market system has been characterized as a complex interaction among individual companies and that of the suppliers and distributors. Complicated deals and exchanges (i.e. sub-contracting, branding, exchange of components) along with tight competition for a confined market (Metro Manila) among small- and medium-sized firms are the cause of this state. Growth is impeded by the lack of harmony and a single industry association (there are several, particularly based in Marikina).

The majority of manufacturers directly sell their goods through public markets or department stores. Traders supplying big retail chains are the next option, capturing 14% of the leather shoe market. About 12% engage in supplying other manufacturers through subcontracting arrangements. The few medium- to large-scale operations market footwear through their own retail outlets, along with other signature branded shoes as a means of quality and price comparison. Luxury imported brands are sold through either their own retail outlets or through exclusive distributorship rights to specialty shops or department stores.

Although the Metro Manila area represents the most profitable market, some companies have ventured to other areas outside of the metropolis to take advantage of the developing alternatives. Several retail outlets have been operating in Cagayan de Oro, Davao, Iloilo and Cebu and are now experiencing an influx of new competition due to expanding development. The larger retail chains like Rustan's, Gaisano, and Robinson's are now being joined by a growing number of SME's engaged in the development of small shopping complexes. Still, the promising market outside of Metro Manila has yet to be explored fully.

Because the export market is filled with complicated procedures and regulations, much of the local companies remain hesitant to venture into this avenue. Export activities are done mostly through joint-venture partnerships with foreign firms. This is because of the inexpensive labor and the skill of local craftsmen. The partner needs large volumes of a particular style or , if it is preferred a specified design, the latter of which is more popular. Aside from middle-men, exporters often enter into agreements with central buying groups or large distribution chains abroad. The idea of locally branded shoes distributed abroad is still to be considered seriously.

3.2.2.4 Government Policy Formulation & Implementation

The main government agency empowered to promote trade, investments and industry is the Department of Trade and Industry (DTI). It serves as the implementing department for comprehensive commercial policies and directives. Because of the enormity of the assigned tasks of the DTI, several agencies under their supervision were created to perform the different crucial jobs. These are: the National Industrial Manpower Training Council (NIMTC); Cottage Industry and Technology Center (CITC); Product Development and Design Center of the Philippines (PDDCP); Center for International Trade Exhibitions and Missions (CITEM); Bureau of Export and Trade Promotions (BETP); Bureau of Internal Trade Relations (BITR); Subcontractors Exchange Program (SUBCONEX). The Technical Education and Skills Development Authority (TESDA), on the other hand, provides government support for manpower development.

On the more direct level, the Local Government Units (LGU), such as the city government of Marikina and the municipal government of Binan, directly interact with the industry. This is crucial since this is the first level of contact with the government for the sector and the primary means of the government to gather data.
The government agencies mentioned, through inter-agency coordination and cooperation, facilitate the desired growth for industries. Although there are no formal parameters for coordination, informal working groups are formed to focus on key issues or problems. A working group is usually formed through the initiative of the sector itself and, therefore, overall success of any project rests upon the willingness of the firms to participate.

For the leather footwear industry, however, disunity within the sector has proven to be the main obstacle for the government. There are several footwear associations, with no single unifying body to fully represent the industry. In effect, the departments have to deal with several groups resulting in the lack of a single direction or goal.

The DTI provides priority assistance to industries considered as export winners or industries which may contribute to national growth in terms of increased Gross Domestic Product (GDP), growth of employment and foreign currency inflow. Aside from cooperation from attached departments, the DTI also relies on other regional and international organizations for promotion and financing such as the ASEAN, GATT, NAFTA, EC and other similar bodies. Limited government resources are thus maximized as a result of such alliances.

With the advent of more open international trade, the government has adapted trade liberalization policies, such as tariff reforms and relief of import restrictions, to minimize production costs of manufacturers through cheap imports (i.e. components and raw materials).

3.2.3 Current Processing Capability

3.2.3.1 Production Process

The process of manufacturing leather footwear involves a great number of steps. These are :

1. Design Making
2. Pattern Making
3. Upper Cutting
4. Upper Preparation
5. Upper Closing/Stitching
6. Counter/Toe Puff Preparation
7. Outsole Preparation
8. Insole Preparation
9. Heel & Toplift Preparation
10. Lasting
11. Roughing
12. Cementing/ Sole Attaching
13. Heel Attachment
14. Finishing
15. Treeing and Packaging

Related to the production process: technology application, product design and development, and quality control.

3.2.3.2 Technology

Technology in the leather footwear manufacturing is limited. Most of the steps involved in production are done by hand. This is also dependent on the financial capacity of the firms in purchasing new equipment. In comparison to the global standards, the Philippines is far behind, with serious implications to production capacity.

Reasons cited include:

- Little knowledge of current technologies
- Small-scale operations do not necessitate constant upgrading of equipment, if any.
- Loss of flexibility in design
- Perceived high quality of design
- Deficiency in support industries limits mechanization
- Expensive
- Lack of large investment capital

Moreover, purchase of equipment is mostly limited to second-hand machines.

3.2.3.3 Labor Force

Exact figures on the total number of workers in the leather footwear sector are unavailable because of the high labor turnover. Estimates suggest between 39,000 to 45,000 composed mainly of employees with ages varying from 24 to 55. Workers are generally poorly trained and have no job-security. Most come from the marginal sector of society. Hiring is done mostly on a per-job basis. There are relatively few permanent employees.

3.2.3.4 Raw Materials/Support Industries

Leather is the main raw material for the sector. Production efficiency is greatly dependent on the availability of leather. The tannery industry, unfortunately, has its own issues to face. Environmental problems arising from the toxic waste by-products from tanning have imposed severe restrictions on productions. Poor quality and a lack of an organized system of acquisition of hides and chemicals are another major problem. But the most severe threat comes from the influx of cheap imports which could shift the preference of footwear manufacturers to imports instead of locally available materials.

Leather shoes are also greatly dependent on support industries that manufacture important components.

Prefabricated shoe components such as uppers, heels, outsoles and the like are critical to footwear production. They have to be readily available in order to ensure smooth production and compliance with schedules. But components, like leather, are slowly coming from foreign sources because of the lack of reliable local manufacturers or suppliers. Present import procedures are proving to be very time-consuming and complicated.

3.2.3.5 Production Capacity/Efficiency

Since most of the processes involved in leather footwear manufacture are still manual, production capacity is expectedly lower than that of mechanized systems. There is no present rating on the production capacity of the industry. Production capacity and utilization varies according to size of the company and the season. According to estimates the overall average capacity are 65% for medium to large companies and 55% for small firms. Worker productivity is also expressed in man-hours per pair of shoes. The traditional process is rated at 2.4 MHRS/P while the mechanized process involves only 1.3 MHRS/P that translates into a serious efficiency problem. Below is a study done by the Asian Institute of Management in 1993.

Table 1.6 **Shoe-making Procedures: Traditional vs. Mechanized**

	Unit Material			Rated Capacity Pairs/Day
	By	Cost/Pair	By	
1. Layout/Pattern	Handtool		Die Mold	
2. Cutting	Handtool		Die Cutter Press	1.000
3. Skiving-edges reduction for easy fol	Machine		Machine	5.000
4. Upper Making		P50		
<Fold & glue	Handtool		Man-paced	
<Stitching	Handtool		Conveyorized	
<Sewing	Machine			
5. Lasting		P10	Lasting Machine	1.500
<Hug the upper to the shoe last	Gadget handtool		<Toe Lasting Machine <Heel Lasting Machine	
<Tack or glue to the inner sole	Gadget handtool		<Tunnel Oven	
6. Bottoming		P120	Bottoming Machine Press	3.000
Join heel with outer sole	Handtool	P20		
7. Assembly (upper w/bottom			Press Machine	1.500
<by Cementing	Handtool	P7		
<by Stitching	Machine	P20		
<Miscellaneous				
8. Coloring	Hand		Spray/Hand	
9. Insole Lining Marking/ Padding	Handtool	P30	Machine	3.000
10. Buffing	Machine		Machine	
11. Boxing (Packaging)	Manual	P3	Manual/Conveyorized	
	RATE:900 prs. w/ 45 men one shift	Total Unit Cost/Pair P360	RATE: 3,000 pairs/wk. 80 men one shift	
Leather Consumption				
<Men's shoes	2 - 2.5 sq.ft./pr.			
<Ladies	1.5 - 2 sq.ft./pr.			
<Children	0.5 - 1 sq. ft./pr.			
OUTPUT RATE INDICATOR	**2.4 MHRS/Pair**		**1.3 MHRS/Pair**	

Source: DTI

As an industry, it is estimated that it can produce between 18 million to 41 million pairs annually depending on the condition of other factors. Large companies have the capacity to produce more than 100,000 pairs a year.

3.2.4 Profile of Major Companies

3.2.4.1 Size and Structure of Companies

The size of a leather footwear company is defined by its asset/capitalization capacity. Small companies are those with less than 15M; Medium are in the 15 to 40M bracket; and the Large companies are those above 40M. Of the 914, 97% are considered small, micro or cottage while the remaining 3% are the medium to large operations. 84% of the total number are family-owned and classified as sole-proprietorships. The medium to large companies are run under corporate structures.
The category of operations of a firm are divided into four:

- Branded – manufactures own brand or foreign brand for local distribution.
- Manufacturer-Exporter – manufactures for domestic consumption and export.
- Subcontractor – produces for other companies. Materials are provided and the subcontractor processes into shoes.
- Supplier – manufactures shoes with own resources for supply to other companies.

Among the major footwear manufacturers/exporters or more popular brands sold in the local market are:

Mephisto	Ohrelle	Pink Soda
Cardam's	Francesco	Confetti
Manel's	Mendrez	Sari-sari
Celine	Cinderella	Bench
Cherie	Renoma	Sporto
Jannilyn	Zenco Footstep	Otto
Itti	Primadonna	Milani
Le Donne	Via Veneto	Margay

The rest are department store brands, such as Parisian (for SM) and Oleg Cassini (for Rustans). Large retail chains such as SM Shoemart, Robinson's, Isetann, Landmark and others employ subcontracting or are supplied by local manufacturers for department store lines. These department stores also market imported shoes, by Bally, Salamander, Florsheim, Naturalizer, etc. Aside from these there are also specialty footwears shops just selling imported footwear brands.

Because most local footwear firms are sole-proprietorships it is often the case that the owners were former employees of other footwear companies who separated and ventured into their own business. Skill and technology is limited to that of the knowledge acquired from previous employment. Others are second- and third-generation enterprises with training handed down by predecessors. In terms, of managerial abilities most managers perform all the basic functions such as purchasing, marketing, collection, supervision, inventory and other tasks.

In contrast, larger firms have corporate structures. Companies are family-owned but are run by hired professional-managers. The firm is highly departmentalized and every aspect of production and marketing is strictly supervised. These large companies operate either as export-manufacturers (direct or indirect) or as supplier/subcontractor.

Table 1.7 **MAJOR LEATHER FOOTWEAR MANUFACTURERS/EXPORTERS**

COMPANY NAME/DETAILS	PRODUCTS
Asian Footwear & Rubber Corp. 235 J. Teodoro St. cor. 5th Ave. Grace Park, Kalookan City Contact: Mr. Brian Cheng/Steve Cheng	sport shoes, casual shoes
Brian Maxbeth Corp. Nubla Cmpd., Circumferential Rd. Antipolo, Rizal Contact: Mr. Maximo del Rosario, Jr.	leather footwear, sewn shoe uppers
FILCON Manufacturing Corp. 28th Flr., Unit 2801 C Tektite Bldg., Pasig City	sport shoes, leather footwear, rubber shoes
Goodfit Manufacturing Co. 12 First Ave., Manalac Industrial Estate 1604 Bagumbayan, Taguig, Metro Manila Contact: Maj. Gen. Pantaleon G. Dumlao (ret.)	combat shoes, safety shoes, hot weather boots, tropical boots (goodyear welt), cow leather, nitrite pvc, rubber sole, nylon canvass, steel shank, military shoes
Paramount Vinyl Products Corp. 56 G. De Jesus st. Kalookan City Contact: Mr. George T. Barcelon	men's sandals, men's leather and non-leather sports shoes, beach sandals, rubber shoes
Shoe Extraco Corporation Cruz Compound Dr. A Santos Ave., Sucat Paranaque City Contact: Mr. Manfred Froehlich/Mr. Reynaldo Silverio	
Valley Shoe Factory 306 Munding Ave. Sto. Nino, Marikina City Contact: Mr. Pepito Samson	sport shoes

3.2.4.2 Financial Capacity

A majority of the large firms have assets/capital ranging from 15 to 60M. Small companies belong to the bracket below 1.5 to 15 M range, with around 70% under the 1.5M range. About 60% of the large firms are financially capable of purchasing new equipment and technology and are largely mechanized. Small- to medium-sized companies are either semi-mechanized or completely manual in operation.

The biggest financial constraint is lack of sufficient working capital, specifically in terms of purchase of raw materials. Another is the high interest rates of accessible financial facilities.

A major source of financing comes from the informal market, either from Chinese traders or unregistered financiers. No collateral is required but interest rates are higher than industry standards. Raw materials or components may be acquired through credit or exchange. As a result, loans and repayment become cyclical and dependency develops into long-term agreements.

3.2.4.3. Industry Associations

The leather footwear sector has numerous umbrella organizations, most of which is concerned with the development of the Marikina area in general. The lack of a central body has served to inhibit the progress of the industry instead of promoting growth and unity among companies. Consequently, no cohesive plan was promulgated and problems were not addressed properly during the previous years. But the situation is expected to improve with the entry of young and visionary leaders in the different associations:

Sector Organizations:

- Marikina Footwear Federation, Inc. – established as the umbrella organization for the footwear sector.
- The Marikina Footwear Development Cooperative (MAFODECO)
- New Marikina Trade Fair Association
- The Marikina Footwear and Leathergoods Manufacturer's Cooperative (MFMLC)
- The Marikina Shoe Expo Leasing, Inc.
- The Assembly of Manufacturers of Marikina Development Cooperative (ASSEMBLYMAN)
- The New Marikina Shoe Trade Fair Association, Inc.
- The Baclaran Shoe Vendor's Association

3.2.5 Development Plan of the Industry

3.2.5.1 Development Issues

The leather footwear industry suffered a series of setbacks and was unable to maximize its opportunities because of several key factors:

1. Because of the lack of proper technology, efficiency and production capacity have become major issues. The local enterprises have been unable to meet global standards in leather footwear manufacture and remain in the background in light of new developments in production technology. The traditional methods require more manpower and manpower hours. With this deficiency in production, a major part of the market has been captured by cheaper and more numerous imports, constituting a threat to the local SME's survival.

2. Lack of sufficiently trained workers and adequate skills development. Most are trained through handed-down methods. Add to this the inability of companies to sustain a core group of craftsmen for long-term operations.

3. Support industries and raw materials suppliers fail to provide components and materials on a regular basis. They are currently facing problems of their own such as environmental and production-related issues (quality and sustaining supply-on-demand operations).

4. Disorganized and complicated marketing systems. There are too many marketing channels. No standardized system. Poor marketing promotion.

5. Inability to maintain an export-oriented operation. Lack of quality materials and joint-venture partnerships.

6. Disunity in the industry. No single industry association to represent the sector in government interaction. Minimal coordination with government agencies and LGU's. Lack of sufficient participation and input from companies.

7. Lack of government initiatives for the industry. Only recently has the government given significance to the potential of the leather footwear sector.

8. Complicated delays in importation procedures of components/materials.

9. Lack of reliable and reasonable credit facility.

3.2.5.2 Proposed Development Plan

Because of the shifting trend to a more global approach for industries, the leather footwear sector and the government have taken steps in achieving growth and success through this avenue. There is much more room for companies to move in because of the liberal atmosphere of trade. Firm-level contacts are now possible instead of the traditional nation-level approach used before. The companies' options for suppliers of raw materials and components have now widened because of the adjustment in tariffs. Cost of production is seen to go down because of the availability of components and materials. Markets are opening up because of the WTO move to reduce tariffs. Markets for Low- and Medium-End lines are now increasing because of shift to High-End products for Taiwan and South Korea. These are:

- More receptive policies in foreign investment and direct foreign investments policies.
- Emergence of more economic zones or centers.
- Fiscal/Tariff restructuring
- Emphasis on exports
- Inclusion into WTO, GATT and other world trade organizations.
- Increased export incentives via the BOI and the Export Development Act.
- Increased initiatives for joint-venture partnerships by the government.

In 1996 the DTI commissioned the preparation of a master plan for the leather footwear sector. The master plan established production targets for the years 1996-2011 with a 1995 production base of 41 million pairs.

Leather Footwear Production Targets 1996-2011

Years	Conservative Growth	Moderate Growth
1996-1997	5%	7%
1998-1999	7%	10%
2000-2002	10%	15%
2003-2005	15%	20%
2006-2011	20%	25%

For exports:

1996-2000 - 16%
2001-2005 - 22%
2006-2011 - 20%

In the proposed plan, several strategic elements were identified to address the issues facing the industry. These are:

1. Production Technology Improvement (PROTECH)
- Creation of a Footwear Productivity Center
- Program for Human Resource Development and Training
- Establishment of Shoe School
- Product Research and Development
- Facilitation of Industry Technology Demonstrations and Adoption by Industry Leaders
- Facility and Equipment Upgrade
- Formulation and Implementation of Product Quality Standards

2. Raw Materials And Components Industry Development Support
- Creation of Industry Cooperators For Support Industries
- Unified Purchases and Importation Activities
- Adoption of Less Complicated Importation Procedures
- Establishment of Strong Forward Linkages with Domestic Livestock Industry
- Improved Production System
- Increased R & D Activities for Alternative Leather/Leather Manufacturing Processes

3. Market Development
- Organization of Market Associations
- Market Planning & Promotion
  a. Establish Market Information System (MIS)
  b. Market Promotion
  c. Develop/Establish Regional Distributorship (Domestic Market)
  d. Develop and Establish Industry Pricing Scheme
  e. Attract Joint Ventures, Subcontracting and Franchising of Name Brands
  f. Establish and Promote RP Leather Footwear Brands in the Export Market
  g. Sustain and Expand Target Markets and Product Types Exported

4. Policy and Institutional Support Program
- Strengthening Industry Associations
- Organization of Inter-Industry Coordination and Information System
- HRD/Training Financing
- Industry Credit Financing
- Strengthening the Management and Technical Capabilities of Relevant DTI Units and Concerned National Agencies
- Local Government Support
- Policy and Policy-Related Reforms
- Establishment of a Special Economic Zone

The plan has an implementation period of 15 years, divided into three phases : Short-Term, Medium-Term and Long-Term. The Plan is spearheaded by the DTI, with its line agencies such as the CITC implementing their respective strategic elements. It is expected to initiate growth and development in the industry. After which, the industry can assume the stewardship role at the end of the plan implementation.

3.3 Leather Goods Industry

Leather goods industry in the Philippines is an offshoot of the footwear industry. Small items such as wallets, coin purse and key holders were made from excess cuttings of leather from shoes. This way, the use of leather is maximized. Eventually some manufacturers found the business profitable which made them decide to concentrate on Leather goods

The quality of the Philippine Leather goods continue to gain competitiveness in the international market owing to the improvement in the quality of hide processing in the local tanneries.

3.3.1 Geographical Location

The Leather goods industry consist of 400 companies employing roughly 40,000 workers. These companies are geographically concentrated in Bulacan, Marikina, Metro Manila, Laguna, Cebu and Baguio. In Bulacan, there are around 124 Leather goods firms employing 923 workers. Most firms however, are family-owned corporations or single proprietorships and have the cottage industry type of operation with few venturing into exports. Some of the leather goods manufacturers had formed an association known as APLEM, Association of Phil. Leather goods Exporters and Manufacturers. Most of these companies are based in Metro Manila.

3.3.2 Current Situation of the Industry

Leather goods are one of the most promising export products of the Philippines today. As such the government has considered the sector as one of the emerging export winner. With an average growth rate of 22 percent for the period 1988-1995 the interest that foreign buyers find in the uniqueness of designs and materials, the key players of the key sector remained optimistic in its growth.

3.3.2.1 Exports and Imports Performance

For the year 1998, the US market remained the number one destination of Philippine Leather goods with a market share of 5.83% valued at $147.094 Million, an increase of 10.07% over 1997 exports of $132.876. Although Japan maintained its second slot since 1997, exports decreased by 16.14% which valued only at $9.141 Million. Taiwan posted the highest increase at the rate of 189.75% with the share of the market at 0.48%. The other top ten markets of Philippine leather goods, in order of market shares, are Canada, United Kingdom, Germany, Australia, Hong Kong, France, Taiwan and Singapore.

Philippine Exports of Leather goods by Market
(In Million US$'000)
1996-1998

Country	1996	1997	1998	% Change 1997-1998
Total	**138.34**	**170.183**	**171.381**	**1.80**
USA	103.24	132.876	147.094	10.70
Japan	15.18	10.900	9.141	-16.14
Canada	3.22	4.482	3.403	-24.05
United Kingdom & G. Britain	1.93	4.558	2.006	-56.00
Germany	1.39	.0756	1.22	61.58
Australia	1.48	1.774	1.198	-32.48
Hong Kong	5.07	5.213	1.133	-78.77
France	1.14	1.408	0.979	-30.42
Taiwan		0.285	0.826	189.75
Singapore	0.528	0.576	0.611	6.13

Philippine Leather goods Exports by Subgroup
(In Million US$'000)
1996-1997

	1996	1997	1997 % Share
Total	**138.34**	**170.17**	**100.00**
Handbag and Belts	16.62	17.79	10.45
Travelgoods	88.11	119.43	70.18
Gloves	33.61	32.95	19.36

3.3.2.2. Strength of the Industry

1. Filipino workers have Inherent artisan skills in the area of design and merchandising development.

2. The abundance of indigenous materials such as reptiles and amphibians, fibers can be used as alternative or main source of material which can demand a high Local Value Added (LVA) content in the world market.

3. Sufficient labor work force in the Philippines, who can readily assimilate technical know-how in the process of production. It should be noted that leather goods manufacturing is a labour intensive industry.

3.3.2.3. Problems faced by the industry

1. Raw Materials - In term of availability, quality and, high cost. The tanning and support industry cannot fully meet the requirements of the industry particularly those for exports.

2. Product Design - Research and development activities are not adequate, most designs are supplied or copied by magazines. Designs vary frequently and product durability and mix of components used and structural requirements are given less attention. Physical appearance is mostly used as the main basis of designs. Despite good performance, the market is still wanting in fresher ideas in creative design and quality.

3. Capital Equipment - Existing machinery and equipment used by the industry is inadequate to maintain certain standards of quality while. testing equipment are needed to determine the limitation of products. inspection done by manufacturers are mostly visual; investments in production facilities and testing equipment are needed.

4. Financing - Difficulties in obtaining working capital and foreign exchange resources to finance operations is experienced by manufacturers.

5. Bonded Warehouse Facilities - The availability of bonded manufacturing warehouse needs to be more accessible to small manufacturers.

6. Technical assistance from government is most relevant to achieve progress. Services, such as those of Footwear and Leather goods Industry Center, in terms of material testing, and skills training. Product specialists and experts advice and assistance in designs development, product adaptation and production techniques, the use of indigenous and woven fibers and other popularized designs worldwide should be adequately promoted and transferred.

7. One thing that bothers the industry right now is the impact of the recent financial crisis, which hurts most of the companies due to the depreciation of the peso against the dollar, where many manufacturers were hit by the high interest rates.

3.3.3 Current Processing Capability

3.3.3.1 Production Capacities

Firms with Leather goods as its primary line is estimated to exceed 400 in the country, mostly are located in Metro Manila and in the Bulacan areas. Many of these firms were established in the mid-seventies, with a few eventually venturing in to exports. This number excludes footwear firms with Leather goods as secondary line.

Total direct employment is at least 4,000 persons, mostly in small firms and a few export oriented manufacturers employing more than a hundred people and women to men ratio at 2:1, the women mostly employed in sewing, finishing and packing operations, while men are mostly in pattern making. Training is through apprenticeship system with skills improvement courses available through government programs.

The industry has existing capacity of at least 4 million pieces of assorted products, where the domestic market takes about two-thirds.

3.3.3.2. Production Process

The Leather goods sector is a highly labor-intensive industry. Very basic machinery such as industrial sewing machines are primarily used at the cottage and small-scale level. Medium and large scale firms have additional machinery such as clickers, strap-cutters, skiving, embossing and buffing machines. The system of quality is spotty in many instances. Quality control simply consist of visual inspection which is made only after all operations have been completed.

General processes are identified as:

a. Cutting - Patterns are prepared based on designs supplied by customers, adopted from magazines or catalogues or supplied by in-house or external designers. Pattern mediums are either paper, cardboard, plastic or cutting. The cutting of components (such as leather and lining) are achieved with the use of scissors or knives for small firms and with clicker machines for large firms. After cutting, the components may under solving process wherein cut leather is pared off.

b. Assembly - Assembly operations involve sewing, g1uing and attachment of accessories. Cut materials are usually sewn together and cardboard, wood, plastic, or fiberglass are sewn or glued to the product as frames. Zipper, snaps and other accessories are attached to the product with the use of simple tools such. as hammers and pliers or with machines such as riveting and eyeletting machines.

d. Finishing - Excess materials are trimmed-off. Each product may undergo dyeing, painting, polishing 'and cleaning process and undergoes final quality control inspection, packed and then distributed.

3.3.3.3. Raw Materials Requirements

Raw materials include:

- Finished Leather such as kid skin, calf and cow skin**,** and reptile skin.

- Leather substitute! such as polyurethane leather, manmade leather etc

- Linings such as pigskin, suede, nylon, taffeta and other fabrics.

- Adhesives such as threads and accessories like zippers, buttons, snaps, hooks, etc.

Leather is sourced from local tanneries while export producers import leather materials which are considered to be of higher qltality. Export-oriented firms who operate bonded manufacturing warehouses or those with BOI or EPZA Incentives may avail of imported finished leather and other materials and supplies, tax and duty-free. Other firm source their, raw materials and supplies from traders in Divisoria and Marikina where about 80% are also imported, with duties that average 30%

3.3.3.4. Cost Structure

A typical cost structure of a small or medium sized firm is composed of:

- Raw Materials 75-85%
- Direct Labor 5-15%

Factory overhead is 10 -20%, where depreciation accounts for about half of overhead.

3.3.3.5. Capital Equipment

Clickers, skiving, sewing, and splitting machines are used by more mechanized firms, while smaller ones have only basic sewing machines. Degree of.mechanization and level of technology is a function of the -type of products and the volume of market served. The modern export oriented firms would have newer or state of the art facilities usually upon recommendations of suppliers.

3.3.4 Profile of Major Companies

TOP PLAYERS IN THE LEATHER GOODS INDUSTRY
Gross Revenue (Php 000)

	Rank 1997	Rank 1996	1997	1996
Gloves				
Nishino Leather Industries	3244	3046	94,682	86,226
Swallow Glove Cebu Corp.	3699	-	78,486	75,033
Cebuano Manufacturing Gloves C.	5051	4387	50,361	50,313
City Leather Gloves, Inc.	5081	5215	49,827	38,636
Kyoto Leather Goods Corp.	5229	3952	47,735	58,724
Quality Gloves Manufacturing Corp	6244	3805	36,419	62,065
Phil. Gloves Inc.	7098	3517	29,719	70,460
Royal Gloves Phils.	7882	10,376	24,847	11,695
Subic Glove Manufacturing	11876	8584	11,719	3,994
Luggage, Handbags and Wallets				
Eastway Travelgoods Inc.	1024	1339	436,134	264,101
Ponderosa Leather goods Co.	1060	1271	416,302	284,553
Leisure Luggage, Inc.	2506	1846	133,646	173,010
Hilltop Luggages and Bags	3991	3416	70,851	73,665
Boncraft Inc.	4119	3502	67,448	70,875
Cathay Luggage Corp.	4724	7199	55,348	22,935
Design Products Mnftng.	5169	5216	48,487	38,630
Winco Industrial Inc.	8345	-	22,592	-
Sybon Inc.	8611	8865	21,406	15,763
L.T.S Luggage Trading Services	8797	-	20,574	-
Salter Corp.	9162	-	19,146	6,427
Bags Fashion Corp.	9784	11893	16,879	9,023
Sylvia Santos Inc.	9868	8593	16,579	16,777
Cases International Phils. Inc.	10068	11006	15,974	10,359
Leather Accessories Inc.	10372	5761	15,088	33,205
Knick Knack International Inc.	10835	9989	13,891	12,597
Products of Leather and Leather Substitutes (Not Elsewhere Classified)				
Mitsuboshi Belting Phil. Corp.	2351	2635	147,287	106,124
Leather Collection, Inc. (The)	4767	4084	54,628	56,032
Philippine Leather Made Apparel	5891	4364	39,858	46,138
B-4 Auto Seat Cover Corp.	6459	4195	34,512	53,987
Fino Leatherwear Inc.	7515	-	26,860	6,493
Valenzuela Tannery Inc.	8117	-	23,727	17,894
Cuir Master Corp.	9527	12471	17,771	8,297

Source: 1997 Top 1000 Corporations

3.3.5 Development Plan of the Industry

The development of the leather goods industry has not been given that much attention by the government for many years. Only recently did the DTI commissioned a study to prepare a master plan for the leather footwear industry. No such master plan has been made for the tannery nor the leather goods industries. The industry is basically left on its own at the moment to look after the development of the industry. Government support is basically given to leather goods exporters participating in international trade events through the CITEM.

Presently, the Association of Philippine Leather goods Exporters and Manufacturers, Inc. (APLEM) is calling on the government to do something in order to simplify the complicated transactions in the processing of documents at the Customs Bureau. Once these things are put into place, there is no doubt that the export of leather goods will further be enhanced, particularly if there is ample support from the government.

Complementing these moves are strategies designed to meet export sales of leather goods items. Statistics from the Philippine Export Confederation (Philexport) projected that sales of these items will generate US$ 380.08 million in the year 2000.

This early, APLEM is already exploring vast opportunities to improve its programs in preparation of the growing domestic and international markets for leather goods plus the liberalization of investment and trading policies.

Along with these, it is also zeroing in on the four areas of development to enhance its competitiveness program. These include the improvement in manpower and machine efficiency; efficient use of materials, labor and machines; the development and maintenance of design, craftsmanship and creativity by using locally available talent.

The government has initiated efforts in support of the industry. Some of these are the Intergrated Technical Assistance Program for Leather and the Animal Products Development Center. It likewise offers incentives in the form of tax and duty exemptions to investors.

Meanwhile the CEPT Scheme of the AFTA and the UR-GATT are expected to benefit exporters of leather products through lower tariffs and more accessible raw materials as well as enhanced market access.

Hence, high quality and cost-efficient leather product manufacturers can expect bright prospects in view of the expected growth in demand for Philippine leather products in the highly competitive but lucrative export market.

3.4 Upholstery Industry

3.4.1 Geographical location:

Upholsterers and firms providing upholstery supplies are concentrated in the Metro Manila area where the biggest markets such as furniture, seat covers, hotels, restaurants, hospitals, motor vehicle owners, repair shops and manufacturers, are located.

Most of the establishments are located in the following areas of Metro Manila:

1. Quezon City
2. Manila
3. Makati
4. Mandaluyong

No readily available statistics are available to show how many firms exist in this industry. In Metro Manila, there are at least 40 upholsterers of reasonable size and operation. There are also about 50 upholsterers' suppliers as well as about 30 firms dealing with upholstery fabrics of the same status.

There are no specific geographical areas outside Metro Manila known for upholstery except perhaps those areas where furniture firms are concentrated such as Bulacan, Pampanga, Tarlac, Ilocos, etc. But these are small or cottage enterprises providing upholstery services to localities too.

3.4.2 Current Situation of the Industry

In the Philippines, the upholstery business is basically integrated in the furniture manufacturing or furniture repair sector. But even this activity is not so significant considering the bulk of furniture manufactured in the Philippines are not really upholstered furniture but rattan, wrought iron, metal, wicker, stone, and wooden furniture. There are many upholstering firms in Metro Manila and outside the National Capital Region, but majority is basically small operations.

Leather upholstery for motor vehicle seats is not a significant market also considering that vehicles manufactured in the Philippines are mainly knocked down vehicles and just assembled locally. For the locally produced jeepneys, the seats are not really made of leather but what is locally known as "synthetic or PVC leather". These are substitutes to the leather and produced locally by chemical firms such as the Mabuhay Vinyl Corporation.

In terms of actual activity, upholstery firms are basically engaged in re-modelling and upholstery repair. There are also companies manufacturing leather seat covers, especially for cars. These leather seats are marketed and priced according to the kind and origin of leather used. Main sources are Germany, United States and Korea.

3.4.3 Current Processing Capability

There is no formal or organized record of the processing capability of upholstery firms. A field survey is essential to get more accurate information.

3.4.4 Profile of major companies

The major firms in the upholstery business are either upholsterers or upholstery supplies firms.

Firm	Activity
Accurate Marketing President Avenue, Parañaque, Metro Manila Tel: 8268224, 8291735, 8079576	Remodelling/reupholstery, living room manufacturing, draperies, curtains, seat covers, quilted bed covers, mini blinds, wall paper, carpets
Bener General Upholstery 59 Dona Soledad , Paranaque, MM Tel: 8237668	Car/home, office upholstery
De Luxe Canvas & Upholstery Supplies 688 Gandara, Metro Manila Tel: 2429524	
Coating Industries of the Philippines, Inc. Sheridan, Mandaluyong City Tel: 6315102, 6315116 Fax: 6312212	Suppliers PVC Leather, plastic coated fabrics, auto seat covers, auto door trims, auto headlinings, rigid urethane for foam in place of slabs, cold storage plants
Crown Furnishings and Décor Centre 1102 Dadivas St. cor Reina Regente St. Binondo, Manila; Tel: 2442260, 244264 Fax: 2442265	Upholstery, folding doors, blinds and design consultation
CWC International Corporation 358 G. Araneta Avenue, Quezon City Tel: 7136430 Fax: 7135186	Supplies Robert Allen interior fabrics, wall coverings, trimmings and leather
Dunhill General Merchandising 829 Juan Luna, Manila Tel: 2417948, 2417952	Sells all kinds of materials for furniture, upholstery and foam mattresses
Five Start General Upholstery 484 NS Amoranto, Quezon City, MM Tel: 732 7977, 4127296	Remodelling and upholstery of car interiors & jeep-top, home, office, restaurant & hotel furniture
Interpolymer Corporation 431 Nuevo, Malabon Tel: 2420068	Manufacturer of shower curtains, vinyl leather, printed table cloth, transparent film, colored sheeting, linoleum, PVC laminate
Polymart Inc. 97 Wawa, Muntinlupa Tel *422147, 8502985 Fax: 842 2987	Sells handwoven leather, contract fabric and roman shades

Firm	Activity
PR Furniture & Car Upholstery Repair 39 Judge Jimenez, Quezon City, MM Tel: 9277318, 9286139	Makes and repairs all kinds of seat covers, house furniture, auto seat cover, jeep tolda, upholstery, varnish, repair, mattress bed, painting, remodelling of old sala sets.
PVC Upholstery & General Merchandising 512-D Quirin Highway, Quzon City Tel 9382407, 9382396	Sells all kinds of upholstery and canvas materials, etc.
PAPS Upholstery 1405 Vito Cruz, Manila, Tel: 5639644	
Real Auto Seat Covers 1594 E Rodriguez, Quezon City Tel: 7224956	Specialized in all cars, jeeps, furnitures, office chairs & general upholstery
Richelieu Upholstery Enterprises Interior Centre, Fourth level Bldg. B, SM Megamall Tel Nos: 6336341 Fax: 6336342	High quality fabrics for upholstery, curtains and draperies, bedsheets and other home decorative items imported from the United States
The Salvo Collection Incorporated Suite 17, Sunvar Plaza Building, Amorsolo St. cor Pasay Road, Makati City Tel: 843 2252, 8432413 Fax: 843 2963	Exclusive distributor in the Philippines of Camborne office contract fabrics, Designtex designer fabrics, Spradling vinyl products
Seat Mate Enterprises 17 (316) C Sto. Rosario St., Mandaluyong City, MM Tel: 5322104, 5311299 Fax 532 5354	Auto Interiors & general upholstery shop
Shell Canvas 1999 Sen. Gil J Puyat cor Leveriza, Pasay City Tel: 8313102, 8316353 Fax: 8342711	Exclusive distributor of upholstery fabrics, trimmings, curtain accessories, carpets, rugs, wallpaper, venetian blinds, leather,velvet and mohair
Toppers General Upholstery & Furniture 93 Timog Avenue, Quezon City, MM Tel: 9214072	Reupholstery of Hospitals, Hotels, Banks and Restaurant Furniture, General Upholstery of all cars
Townes Inc 916 A. Arnaiz Ave, Makati City Tels: 8441338, 8445086 Fax: 843 5597	Exquisite and high quality drapery and upholstery fabrics for residential and commercial use; decorative tassles and trimmings for curtains & furniture; decorative hardware and accessories

Firm	Activity
Villa Arca General Upholstery & Furniture 2-D Caina St. Villa, ARCA, Project 6, Quezon City Tel: 9260730, 9280163	General re-upholstery and made to order furniture
3M 8270 Dr. A Santos Ave., Paranaque, MM Telefax: 8258927, 8287957	Home furnishings, sala set cover and general upholstery (remodelling/reupholstery)

3.4.5 Development Plan of the Industry

There is no industry wide development plan for the industry. The government has not given it a priority status for now, except perhaps as a support industry for the furniture sector. Companies basically plan on their own without any development framework at the industry level.

4. State of the Leather Market

4.1 Market Features

The current domestic market situation, which is presently experiencing a shortage of good quality leather in the Philippines, offers business opportunities to foreign leather manufacturers and suppliers. The domestic leather manufacturers are not able to supply adequate amounts of good quality leather and this situation opens up the domestic market to leather imports to meet local requirements. The market presents a window of opportunity to both local and foreign leather companies to cooperate in meeting this need. Cooperation is possible in several areas:

a. Supply cooperation with raw materials and components manufacturers
b. Marketing and distribution
c. Technical cooperation between Philippine and foreign firms
d. Joint production arrangements
e. Equity joint ventures or financial cooperation
f. Investments in leather manufacturing and components manufacturing
g. Regional business cooperation to tap ASEAN/Asian markets

The market players and cooperators include the tanneries, footwear manufacturers, leather goods companies and upholstery business.

In general, the leather market can be described as follows:

a. Market players are concentrated in the Bulacan and Marikina areas, where clusters of leather tanners as well as footwear and leather goods manufacturers existed for many decades.
b. Leather and leather product manufacturers are not specialized. Tanners do not only manufacture and sell leather but also manufacture/sell footwear or leather goods or vice versa)
c. Footwear and leather goods manufacturers operate through a network of production sub-contractors (i.e. manufacturers do not produce everything they sell)
d. Foreign competitors are penetrating the local market. Local manufacturers are experiencing stiff competition from foreign suppliers as a result of trade liberalization. In particular, low price manufacturers/suppliers, have successfully penetrated the low-end market as in the case of the shoe and leather goods industries. A good number of footwear manufacturers have closed down in recent years.
e. highly disorganized and to some extent, divisive (esp. in the footwear industry). There are many associations representing the industry, especially the footwear industry.
f. In terms of pricing, stiff competition is reducing the mark ups of tanners, which are forced to operate at break even or even at a loss.

4.2 Local consumption

Statistics on local consumption of leather are not complete and readily available.

4.2.1 By leather footwear industry

The product lines carried by footwear manufacturers determine the type of leather to be used. A rough estimate of footwear production by major product lines and leather type used to indicate the following:

Product Line	% Production	Type of Leather Used
Ladies Shoes	55%	70% goat (kid hides)
Men's Shoes	30%	90% calf/cow
Children's shoes	15%	80% calf/cow, 20% kid

Source: DTI

Cow/calf hides and goat/kid skins are, therefore, the most important raw materials in leather production, the domestic supply of which is highly dependent on the livestock industry of the country.

4.2.2 By leather goods industry

The price of leather good products is pegged in consideration of quality, materials, workmanship, finish and styling . Brands are associated with higher prices. Mid-range priced products do not attach a great deal to its brand name but more on the styling and workmanship. Consumers are interested in fashion and functionality of the leather products. They also require good quality. However, consumers are not spending large amounts for the products

There are no consumption figures readily available from industry associations or government agencies. However, a typical handbag leather consumption is about 4.5 square foot and lining of about 3.5 square foot. Small Leather goods such as wallets require 1 square foot of leather and 0.75 sq. ft. of lining. With a production of 2 million bags and two million small leather items, total leather requirements is.11 million sq. ft. at-id 9.5 million sq. ft. for lining.

4.2.3 By other users

There are no other significant users of leather except those food industries that tend to reduce the supply of hides and skins.

As earlier noted, there are specialty filipino food items which contribute to the low availability of hides and skins. This report refers to the filipino liking for the following food delicacies*: chicharon, dinuguan,* and *kare-kare*.

4.3 Leather Supply

Statistics on leather supply are not complete and readily available.

4.3.1 Local Supply

As of 1996, the leather tanning industry has an estimated annual capacity of 46.5 million sq. feet of finished leather, 60% of which is absorbed by the leather footwear industry. In addition, it has rated annual capacity of 800 mt of sole leather. Annual utilization, however, of existing industry facilities stands at only 30%, way below its rated capacity. The grossly low utilization rate is attributed to the inadequate supply of rawhides and lack of operating capital. (DTI)
Common defects in locally produced upper leather is as follows:

Class	Extent of Defects*	Percentage
A	Less than 5% of total area	10%
B	5-8% of total area	30%
C	More than 8% of total area	60%

Source: PDCP Industry Digest, April 1995, Volume 19, No.4
**include scratches, stray marks and irregular color and texture*

Local tanneries complain of the shoe manufacturers' practice of buying on a piece-meal basis. Instead of buying in bulk of, say 500 sq. ft, manufacturers purchase on a per order basis, which results in more uneconomical and wasteful application of processing chemicals and treatment additives. On the other hand, tanneries that stock leather incur high inventory costs in the long-term because storage of leather is affected by humidity and temperature change.

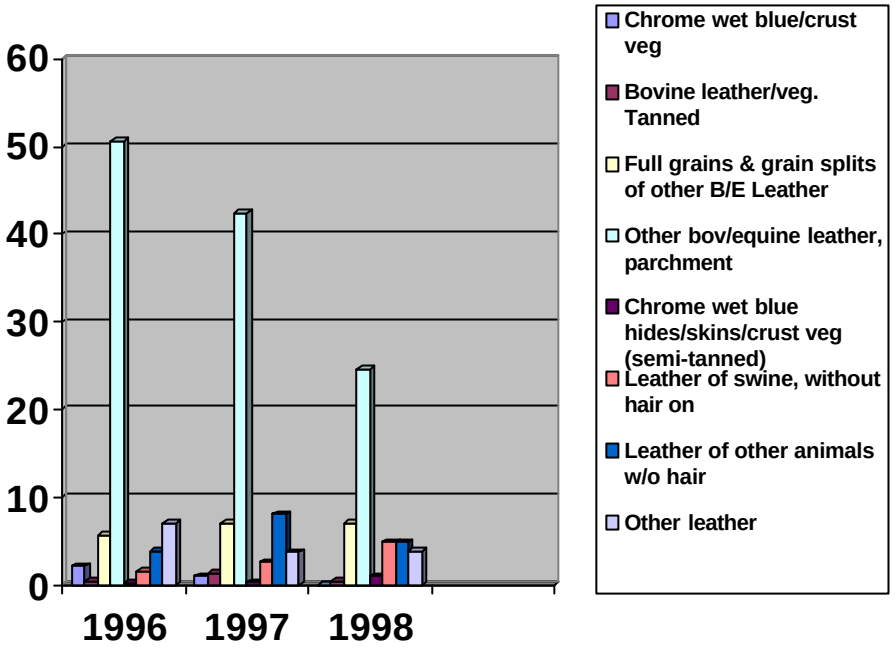
The problem of leather supply has, to some extent, been neutralized by the introduction of leather substitutes for footwear. Such substitutes include rubber and plastics for shoe soles, synthetic leather, textile and textile materials for shoe uppers, and indigenous materials mixed with leather. Just the same, however, the production of synthetic leather requires imported materials.

4.3.2 Imported Supply

Leather manufacturers and leather using industries import finished leather. Because finished leather is classified as a finished product, the tariff rate imposed is higher. 20% in 1996 and 10% in 1998-2003 and 5% starting on year 2004. Due to the critical demand for leather raw materials, which cannot be met by local production, the leather using sectors are advocating for acceleration of tariff reduction on finished leather to 3% effective immediately.

From 1996 to 1998, there was a consistent downturn in the value and volume of imported leather. From total imports valued at US$ 70 million in 1996, it slid to US$ 67 million and hit US$ 43 million in 1997 and 1998, respectively. The volume of imports contracted from 5.7 million kg (net) in 1996 to 5.2 million kg. and 4.1 million kg in 1997 and 1998, respectively.

This is mainly the result of the financial crisis that hit the Philippines in mid-1997 and brought the peso-US dollar exchange rate up to as high as Php 45 per US$1 in early 1998. This made imports more expensive and contributed to the contraction in imported leather demand.



Value (US$M, FOB) and Volume (net. M kg.) of Imported Leather

Leather Imports	Value in US$ M, FOB				Volume in net M kg.		
	1996	1997	1998		1996	1997	1998
Chrome wet blue/crust veg	2,20	1,00	0,02		0,50	0,30	0,01
Bovine leather, veg. Tanned	0,40	1,40	0,40		0,08	0,07	0,02
Full grains & grain splits of other Bov/Equine	5,70	7,00	7,10		0,50	0,60	0,60
Other Bovine & Equine leather, parchment	50,60	42,40	24,70		3,40	2,70	1,70
Chrome wet blue hides & skins (semi tanned)	0,20	0,40	1,00		0,40	0,30	0,70
Leather of swine, w/o hair on	1,60	2,60	0,70		0,20	0,40	0,20
Leather of other animals w/o hair on	3,90	62,90	38,80		0,30	0,40	0,30
Other leather	7,10	3,80	3,90		0,30	0,30	0,30

Source of basic data: Bureau of Export Trade Promotion

5. State of the competition

5.1 Leadership and main competitors in the tanning industry

As far as foreign competitors are concerned, the heaviest competitor of Philippine leather manufacturers comes from the Republic of Korea. For example, in the imported bovine and equine leather (PSC code 6114209) market, which accounts for 58% of total leather imports market, the Koreans supplied 72% of the local requirement in 1998. In 1996 and 1997, the share of Korea was even higher at 81-82%. (See table)

The decline in shares of Korea was partially brought about by the relatively stronger performance of other Asian suppliers from Hong Kong, Japan, Singapore and Indonesia.

In the 1996-1998 period. Europeans supplied other bovine and equine leather to the Philippine market. Among them were Italy, Germany, France, UK, Spain and Belgium. Except for the United Kingdom, all the other EU suppliers lost out in the imported bovine and equine market. About 120 net kg of other bovine and equine leather was sold by EU suppliers to the Philippines.

Import Volume of other Bovine and Equine Leather (PSC 6114209) by EU country (in '000 net kg.)

EU country	1996	1997	1998	Total	1998 Share
Italy	22.9	31.8	5.6	60.3	46.6
Germany	10.2	3.9	6.4	20.5	15.8
France	17.1	2.0	1.4	20.5	15.8
UK	0	0.2	1.6	1.8	1.4
Spain	20.2	4.3	1.8	26.3	20.3
Belgium	0.1	0	0	0.1	0.1
Total	*70.5*	*42.2*	*16.8*	*129.5*	*100.0*

Source of basic data: Foreign Trade Statistics

5.2 Leaderships and main competitors in the leather footwear industry

The main competitors for local manufacturers for PSCC 8514909 are Hongkong, The People's Republic of China, and Indonesia. Outside of the Asian region, the next largest suppliers of leather footwear are Germany, Italy and the UK.

The dominance of Asian imports in the market can be attributed to the relatively cheap and abundant labor force available, especially in the PROC and the less expensive operating costs in the mentioned Asian countries. Availability of raw materials and organized support industries in these countries have served to ensure efficient production and delivery of goods.

Imports of Leather Footwear According to Country of Origin

PSCC Code 8514909 - Other Footwear with Outer Soles of Rubber or Plastics and Uppers of Leather, N.E.S.

Country of Origin	Volume (In Pairs)			Value (Value in US Dollars, FOB)		
	1996	1997	1998	1996	1997	1998
1. Hongkong	204.427	289.526	233.977	1.088.853	1.546.318	961.316
2. China, People's Republic of	70.151	184.712	154.195	602.620	681.296	797.244
3. Indonesia (includes West Irian)	105.222	8.107	71.874	819.851	41.155	747.371
4. United Kingdom	2.216	16.062	12.878	36.335	340.426	348.144
5. Germany	2.087	19.761	48.138	7.199	325.664	297.353
6. Italy	2.121	1.465	25.859	26.010	19.170	257.716
7. United States of America	5.628	6.307	9.665	21.640	9.593	162.085
8. Taiwan	7.774	11.588	3.876	75.693	119.025	67.200
9. Spain	2.326	3.773	5.840	35.707	29.703	40.428
10. Portugal	1.550	2.868	3.836	20.502	3.619	10.427
11. Korea, Republic of		11.883	7.910		20.000	10.190
12. Japan (incl. Okinawa)	527	205	1.201	20.708	7.888	8.409
13. Singapore	258	3.593	3.893	4.824	42.038	6.206
14. Thailand	630	18.009	5.164	695	37.537	2.462
15. Vietnam	4.800	38.800	5.820	20.736	61.929	1.698
16. Brazil		7.200	18		81.000	270
17. France	1.700	586		32.974	9.876	
18. Netherlands		82			5.511	
TOTAL	***411.417***	***624.527***	***594.144***	***2.814.347***	***3.381.748***	***3.718.519***

Source of Basic Data: National Statistics Office (NSO) Trade Statistics,
Bureau of Export Trade Promotions (BETP)

5.3 Leaderships and main competitors in the leather goods industry

There are one hundred twenty (120) leathergoods companies in Bulacan, sixty (60) in Marikina, over sixty (60) companies are registered with Board of Investment (BOI) which are scattered around Metro Manila, and twenty four (24) are registered with Philippine Economic Zone Authority (PEZA). Some of these companies are manufacturing leathergoods as well as footwear or sporting goods.

Companies located in PEZA numbering to twenty four (24), are principally investment from Japan, USA, Korea, China and other countries. The total foreign investment is valued at PHP 600 Million. Employment generated by PEZA is about 4,000 workers. Similarly, leathergoods investments registered with the Board of Invesments from 1988-1994 is valued at P 410 million.

Among the manufacturers of luggage, handbags, wallets and other leather products, Eastway Travelgoods, posted the highest sales of PHP 436 Million in 1997. Ponderosa Leathergoods Co. came second with sales of PHP 416 Million while Leisure Luggage, Inc. placed third with PHP 133 Million.

Nishino Leather Industries, the leading manufacturer of gloves in the Philippines, is a BOI-registered firm with 99.60% Japanese Equity and .040% Filipino. Their plant is located in Cavite and most products are made of tanned pig skin. The annual capacity of the factory is estimated at 4,590,000 sq. ft. with a project cost of PHP40 Million. Nishino started operating in 1989 with 55 employees.

5.3.1 Foreign competitors

The Philippines major supplier of leathergoods are Hong Kong, China and France. Asian countries such as Singapore, Taiwan, Thailand have become more important suppliers in recent years. This trend will continue as the provisions of the AFTA and APEC are fully implemented. Two European countries, Switzerland and the UK, have established themselves among the top ten suppliers of leathergoods in the Philippines.

Philippine Imports of Leathergoods by Market
(In Million US$'000)
1995-1998

Country	1995	1996	1997	1998	% Change 1997-1998
Total	**11.367**	**12.992**	**12.769**	**5.541**	**-56.60**
Hong Kong	5.981	5.227	7.262	2.584	-64.42
China	0.599	0.746	1.710	1.086	-36.49
France	1.751	3.496	0.760	0.353	-53.55
Taiwan	0.501	0.739	0.804	0.318	-60.38
Switzerland	0.316	0.280	0.028	0.252	808.97
USA	0.536	0.602	0.678	0.240	-64.68
Thailand	0.031	0.112	0.35	0.118	236.48
United Kingdom	0.006	0.257	0.433	0.091	-78.89
Singapore	0.251	0.121	0.175	0.081	-53.71
Japan	0.026	0.079	0.264	0.079	-70.11

5.4 Leaderships and main competitors in the upholstery industry

The main competitors and business leaders in the upholstery industry are:

Toppers General Upholstery & Furniture 93 Timog Avenue, Quezon City, MM Tel: 9214072	Reupholstery of Hospitals, Hotels, Banks and Restaurant Furniture, General Upholstery of all cars
Real Auto Seat Covers 1594 E Rodriguez, Quezon City Tel: 7224956	Specialized in all cars, jeeps, furnitures, office chairs & general upholstery
PR Furniture & Car Upholstery Repair 39 Judge Jimenez, Quezon City, MM Tel: 9277318, 9286139	Makes and repairs all kinds of seat covers, house furniture, auto seat cover, jeep tolda, upholstery, varnish, repair, mattress bed, painting, remodelling of old sala sets.
Seat Mate Enterprises 17 (316) C Sto. Rosario St., Mandaluyong City, MM Tel: 5322104, 5311299 Fax 532 5354	Auto Interiors & general upholstery shop
Villa Arca General Upholstery & Furniture 2-D Caina St. Villa, ARCA, Project 6, Quezon City Tel: 9260730, 9280163	General re-upholstery and made to order furniture
3M 8270 Dr. A Santos Ave., Paranaque, MM Telefax: 8258927, 8287957	Home furnishings, sala set cover and general upholstery (remodelling/reupholstery)

5.5 Options to penetrate the domestic market

There are several options to penetrate the local leather market:

1. EU firms can directly export leather to the Philippines through importers of raw, semi finished or finished leather. There are firms engaged only in importing while other importers have their own wholesale and retail distribution networks.

2. EU leather firms can also set up marketing partnerships with local tanners, especially for raw or semi-processed hides and skins. For finished leather, tanners and leather using industries can be potential partners to get EU leather products in the local market. To avoid conflict between local leather manufacturers and leathergoods/footwear firms, there are ongoing joint talks with the government to let the local tanners handle the importation of finished leather.

3. EU leather companies could likewise consider establishing joint production and marketing arrangements with local tanners. There had been some experience in this regard where an Italian leather company has provided technical / production advice to a local firm for the manufacture of leather for the Middle East / European markets. The Italian partner visits the Philippines regularly to assist in the production of leather using the facilities of the local leather manufacturer. The Italian partner also markets the product overseas.

4. Local firms are also open to the possibility of establishing equity partnerships. They offer a lower production costs in exchange for markets and/or improved technology.

There are specific areas of opportunity for interested investors.

One is in the leather tanning sector to provide finished leather to support the growing demand of the leathergoods manufacturing sector. Since locally produced leather is basically considered of inferior quality because of poor quality local hides and lack of modern tanning facilities, the leather footwear, leathergoods and upholstery subsectors had to rely on imported leather for products catering to the higher end of both the domestic and international markets. Investors are therefore encouraged to invest in modern tanning facilities. The increase use of alternative leather sources such as pig or goat skin which are more abundant than cattle hides could also be developed.

In the footwear sector, a plastic shoe last factory has been set up with a German partner a few years ago and is now entering into production phase. There are still many components which are imported and could still be considered by EU firms as opportunities to produce locally. The competitive advantage of producing shoe components in the Philippines to serve global markets should be explored further.

Similarly, there are also opportunities in the leather goods manufacturing sector where there are enormous export opportunities. The country has the advantage of relatively inexpensive labor, highly educated workforce, keen sense of Western tastes and access to major international markets. There are business opportunities for trading and manufacturing metal accessories like buckles, locks and other components which have to be imported from other countries due to the inferior local quality of locally produced items. With the liberalized investment climate in the country, the leather goods industry hopes to attract support industry such as accessories and leather finishing.

5.6 Potential Partners in distribution

The Philippine retail trade sector is one of the most highly developed and viable industries in the country. A study reports that the average annual growth rate in sales range from 12% to 15%. It accounts for an average share in gross domestic product of 11.3% from 1980 to 1992.

Key players in the department store sector include Shoemart, Inc. (SM), Rustan Commercial Corp., and Uniwide Sales Inc. See Annex for List of Department Stores

Leather footwear and leather goods manufacturers sell their products at various points of the distribution stream. There are those that directly sell retail, others sell to establishments who undertake the retailing, department stores, local community market, boutiques, etc. A few firms report direct export and sales to exporting firms, agents and middlemen buyers. Most small-scale entrepreneurs also act as their own marketing agents, approaching department stores with samples and taking orders. Most shops initially order modest batches, then increase their orders if a batch sells well.

Some leather footwear and leather goods exporters are dependent on participation in international trade fairs, selling missions and servicing direct and indirect inquiries to generate sales.

5.7 Potential partners in manufacturing

Potential partners in manufacturing are members of the industry associations representing the main leather sectors, such as the Tanning Association of the Philippines (TAP), Footwear Industry Associations (various) and the leather goods industry association (APLEM).

5.8 Distribution channels

Products basically flow through traders and then to final users or buyers.

Philippine companies can go direct to the source to avoid the mark ups along the distribution chain. Many companies have their own importing company and distribution channels, as in the case of most department stores.

Manufacturers of leather, leather footwear and leather goods can import semi processed/finished goods directly and supply them to their clients/buyers.

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