

Australian Association of Leather Industries

*Inquiry into the TCF SIP Amendment
(Post-2005 Scheme) Bill 2004*

*Submission to Australian Senate
Economics Committee July 2004*

Overview of Australia's leather industry

- More than 3100 employees
- Major regional employer, customer and supplier
- >\$880 million turnover
- Located in major regional and metropolitan centres throughout Australia
- Australia's leading TCFL exporter - 35% of TCFL exports

Leather in the 1990's

- Best performing sector:
 - turnover up 33% compared to 6% decline for TCFL
 - value added up 66% compared to 22% for TCFL
 - productivity up 76% compared to 16% for TCFL (1996/7 - 2000/1)
- nearly 210% increase in export values
- most export intensive sector
 - 66% compared to 25% for TCFL
- smallest reduction in employment
 - only down 3% compared to 30% for TCFL

» (source TCFL Forum)

Leather Industry Strategic Direction

- Committed to continuous improvement
- Adopt and develop technology
- Invest in people, equipment and products
- Innovate and export

Leather Industry Strategic Direction

- Technologically complex industry
- Automated processing
- Environmental and waste technologies
- Organic and inorganic chemical research & development
- Engineering, information technologies and logistics

Current Arrangements

- Tariff pause and SIP have provided conducive environment for industry strategies
 - investment
 - innovation
 - export
- The current SIP is a strategic scheme designed to foster potentially competitive areas

TCF SIP (Post-2005 Scheme)

- Government has concluded that some restrictions (not eligible for type 2 support of 80% of eligible expenditure) will apply to the leather industries as:
 - “they face the least adjustment” and are “highly capital intensive”
 - “innovative activity ..is more technically oriented..”

(Source: TCF SIP (post-2005) Explanatory Memorandum)

TCF SIP (Post-2005 Scheme)

- The Government's analysis of the leather industry is not accurate as:
 - the industry's domestic market is declining as a direct result of tariff reductions in footwear and clothing
 - overseas competitors are benefitting from transfer of Australian manufacturing offshore
 - capital support will be of less value given massive investment undertaken in last five years
 - SIP innovation was meant to be technically oriented rather than presentational or visual

TCF SIP (Post-2005 Scheme)

- Leather industry needs to undertake further product development and process improvement
 - to build on capabilities introduced as a result of the SIP scheme
 - to encourage a commodity based Australian industry to invest, innovate and diversify its product range
- AALI seeks appropriate support to:
 - achieve desirable industry development outcomes
 - build on Governments investment in SIP 1
 - offset costs associated with previous policy effects
 - decentralization and fragmentation of infrastructure
 - reliance on domestic market

TCF SIP (Post-2005 Scheme)

- Government now proposes to direct SIP 2 support towards those sectors with lowest levels of international competitiveness and directly encourage imports with import subsidies through the Product Diversification Scheme

AAIJ's Recommended Approach

- Tariffs
- SIP
- Other matters

Tariffs

- Legislate tariff pause as in Governments proposal
- Evaluate international progress towards lower trade barriers in say 2010

Strategic Investment Program

- Amend bill to retain eligibility of leather product design and process improvements for type 2 support so as to provide equal treatment to leather industry as other industry sectors
- Amend bill to provide same percentage level of support to type 1 and 2 expenditures