



**AUSTRALIAN ASSOCIATION OF
LEATHER INDUSTRIES**

14 July 2004

Dr S Bachelard
Secretary
Economics Legislation Committee
The Senate
Parliament House
CANBERRA ACT 2600

Dear Dr Bachelard

I am pleased to present this overview and the attached paper to the Economics Legislation Committee Inquiry into the Textile, Clothing And Footwear Strategic Investment Program Amendment (Post-2005 Scheme) Bill 2004.

The Australian leather industry is very disappointed with the Government's proposal which, on the basis of inaccurate assertions that have never been tested with the industry, has denied the industry access to the scheme's support for product development and process improvement. This will place at significant risk the work undertaken by the industry under the aegis of the initial SIP program. The bill should, therefore, be amended to remove this discrimination.

The Australian Leather Industry is a leading processor of Australian raw materials and is a major manufacturer in its own right. It is the leading export sector within the TCF industry. The industry now produces over \$880 million of leather per year and generates nearly \$190 million of value added. This activity is undertaken in some 180 establishments located throughout Australia, predominantly in regional and remote locations and directly employs over 3100 people. Through being a major user of their products, the industry also supports significant farm and rural abattoir employment and income.

There are significant manufacturing facilities in all states. The industries are significant employers in metropolitan areas such as Laverton and Colac and regional areas such as Toowoomba.

The industry has adjusted to declining tariffs and the subsequent reduction in its domestic markets by consolidating to a small number of players. In making these changes the leather industry has made significant capital investments to replace old and outdated equipment.

The industry now needs to innovate and diversify its product range to ensure it does not get caught in the trap of competing in undifferentiated leathers in order to utilize this new capacity. It was with significant dismay therefore that the industry learnt from the Minister's press release that the Government was proposing to abolish its support for the Industry's efforts to innovate and diversify its product range.



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The abrupt cessation of this element of the SIP framework means that the task of developing an innovative, technologically adept, export oriented Australian industry that was the core of the original SIP Program will not be completed.

Access beyond 2005 to the product development and process improvement components of the second SIP scheme would enable the industry to use its newly acquired technical capabilities to undertake fundamental research.

The new SIP scheme also discriminates against capital intensive activities by providing a rate of support for the labour based type 2 expenditures that is double that of capital expenditures. This acts to encourage those sectors that are more labour intensive and therefore less likely to effectively compete with low cost overseas competitors.

The Industry would suggest that if the bill is not amended to provide the leather industry with type 2 support then the level of type 1 grants should be increased to 80%, the same rate of support provided to labour intensive activities. This would remove the discrimination against capital and technology intensive activities within the scheme.

If these amendments were not made to the bill then the legislation should be rejected to enable further consultations on an appropriate industry support package.

Naturally, I would be pleased to clarify any issues that the committee may have.

Yours sincerely

Allan Rich
President