

**AUSTRALIAN ASSOCIATION OF LEATHER INDUSTRIES (AALI)
SUBMISSION TO TCF REVIEW – MAY 2008**

The specific matters that AALI wish to submit for consideration are as follows:

- **Continuation the SIP program of support through capital investment programs without modulation Post 2010**
- **Access to Type 2 Innovation Grants supporting Research and Development initiatives for product and process innovation under any future TCF program Post-2010**
- **Introduction of a specific program to support capital expenditure for environmental and water and energy conservation initiatives**
- **Extension of the Expanded Overseas Assembly Provisions Post 2010**
- **A modification of NICNAS to facilitate the ready availability of chemicals.**
- **Supplies to Australian Defence Forces**
- **Government action to address the inconsistency of application in relation to the South African Motor Industry Development Plan**

Introduction

The Australian leather industry consisting of bovine, kangaroo and sheepskin tanning industries (either part or fully processed) has always taken the view that it has a natural advantage in the availability, locally, of a naturally recurring raw material resource which constitutes a significant proportion of the total cost of production.

The industry has invested in the latest equipment and technology available throughout the world.

It has also been at the forefront of developing and implementing processes that ensure compliance with our environmental needs.

The industry has continued to improve its favourable balance of trade position over the past 5 years. This reflects the fact that participants have successfully diversified their activities and focused on export markets. These companies that have been successful in competing on export markets have invested in the latest equipment and technology and been innovative in their approach to product development and marketing.

Finished Leather

It is notable that exports of finished leather grew at a rate of 9.2% per annum from 2003 to 2007.

Examples of the development and application of innovative practices in finished leather production have been:

- The development of high performance leathers for footwear and automotive use

Semi-processed hides (Wet Blue)

Over the last 5 years the percentage of hides semi-processed (to the wet-blue state) has declined as a percentage of the total hides arising in Australia. The decline in the growth of this sector of the leather industry has in the main been the result of the emergence of China and India as the main producers of finished leather in the world. They have replaced the traditional markets of European countries and have preferred to purchase salted hides as they have not been bound by the same strict environmental regulations.

Historically the Australian wet blue processors have been at the forefront of developing and adopting the latest technology. Examples of the development and application of innovative practices in wet blue production have been:

- Re-cycling of Chrome – leading to a significant reduction in chrome in effluents
- Hair saving – leading to the use of hair previously discharged as effluent being used for fertiliser
- Reduction in processing times leading to increased productivity and plant utilisation

This approach contributed to the rapid growth of this sector of the industry until the change in the market. European tanners recognised the benefit of eliminating the cost and environmental issues related to processing salted hides and moved to buying wet blue. The cost of salting a hide (approximately A\$7.00 per hide) is a wasted cost as the first step in processing the hide in the destination country is to re-hydrate the hide and wash out the salt. This has environmental implications apart from the wasted cost. From an overall environmental aspect it makes sense to semi-process hides in Australia.

There are some significant changes starting to occur to current practice in the countries importing salted hides. For instance – Indian Tanners are now experiencing both delays and rejection of licence applications to build early stage processing operations because authorities are recognising the environmental problems. A continuation of this trend will see a return to the strong demand for hides semi-processed in Australia.

Specific Matters

- **Continuation the SIP program of support through capital investment programs without modulation Post 2010**
- **Access to Type 2 Innovation Grants supporting Research and Development initiatives for product and process innovation under any future TCF program Post-2010**
- **Introduction of a specific program to support capital expenditure for environmental and water and energy conservation initiatives**

The impressive record of the industry has been possible because of its proactive approach to investment and innovation. It faces significant disadvantage in the market place and will continue to adopt a positive approach but seeks the continuation of the support that has enabled it to invest in the past.

Because water conservation, greenhouse (i.e. carbon trading etc) and environmental issues impact so critically on the industry it seeks specific assistance in its efforts to find new and innovative ways to meet the challenges ahead. For its part the Industry stands ready to continue its lead role.

In any new program the need for modulation should be avoided, if possible, as it creates uncertainty as the exact extent of funding is unknown and inhibits investment decisions.

- **Extension of the Expanded Overseas Assembly Provisions Post 2010**

We seek the extension of the OAP as some of our members have been successful in having their leather used in footwear produced in other countries and imported into Australia. There is no doubt that the OAP have been a significant factor in achieving this.

- **A modification of NICNAS to facilitate the ready availability of chemicals.**

There are a number of processing chemicals that have been developed overseas to meet specific needs of the customer but which are not readily available to Australian tanners because of NICNAS provisions. Attached is a paper that deals in more detail with this matter with supporting comments from an Australian chemical supplier. (See Appendix 1)

- **Supplies to Australian Defence Forces**

Leather manufacturers in the United States of America enjoy a privileged position of supply to the US Defense Department under the Berry Amendment. Our member's meet the standards required by the Australian Defense Department and have been consistent and reliable suppliers in the past but are now facing price competition from countries that do not impose the same standards on their tanning industry and are therefore able to offer a lower price. We seek support in addressing this competitive disadvantage.

- **Government action to address the inconsistency of application in relation to the South African Motor Industry Development Plan**

The world automotive industry is not a level playing field and Howe Leather has been adversely affected by the competition from South African companies benefiting from their MIDP which we believe infringes WTO rules.

We ask that the Australian Government take action to redress this breach. See attached notes from Howe Leather (Appendix 2)

We would be happy to meet further to discuss any of the above.