

Australian Association of Leather Industries Submission to the Productivity Commission Inquiry into the Textile Clothing and Footwear and Leather Industries with Respect to Post 2005 Industry Assistance Measures

1. Introduction

This submission as been prepared by the Australian Association of Leather Industries (AALI). AALI represents the major finished leather manufacturers in Australia. These leather manufacturers also have the capacity to market early stage processed leather such as wet blue and crust.

The companies that are full members of AALI and their geographic distribution are as follows:-

- Australian Leather Holdings (ALH) Ltd - Victoria
- Bowron G.L. Australia Pty Ltd - Victoria
- G.H. Michell & Sons (Australia) Pty Ltd - South Australia
- Jacksons Tannery Pty Ltd - Victoria
- Joshua Pitt Pty Ltd - Victoria
- Murgon Leather Company Pty Ltd - Queensland
- Packer Leather Pty Ltd - Queensland
- Platypus Manufacturers Pty Ltd - New South Wales
- VHSP Pty Ltd - Victoria
- Walfertan Processors Pty Ltd - New South Wales

AALI also has a number of associate members comprising hide and skin merchants, tanning chemical companies and industry service providers.

2. Australian Leather Industry Overview

The Australian leather industry has undergone significant and ongoing change over the last 10 years as a result of government TCF policy and global market forces. In 2003 the Australian leather industry has the following characteristics:-

- It is seen as an essential part of the supply and value chains of the meat processing and leather goods industries domestically especially the clothing, footwear, automotive and furniture industries. However automotive leather is excluded from this review.

- The tanning industry, globally, has set up new production capacity close to the newly developing footwear and leather goods manufacturing regions (e.g. China). The result has been a significant production over-capacity worldwide. The Australian industry is competing in this environment and has had to adapt accordingly.
- The industry has consolidated to a small number of players who have progressively changed the nature of their businesses to develop specialist niche and ultra niche products for domestic and export market consumers.
- The consolidation and restructure has made the industry fiercely competitive. While there is an attempt to participate effectively in supply chain relationships, the level of trust across the participating players is often low.
- There has been increasing integration along the leather supply chain as players have sought to develop those parts of their business that has Australian and global competitive advantage. As such, while government policy focuses on finished leather, industry players have to respond to market forces that require the Australian leather industry to develop products such as pickles, wet blue, crust and finished leather to customer requirements.
- In making these market driven changes leather industry players have had to:-
 - make significant capital investments to deliver leather to precise specifications demanded by both domestic and export customers;
 - respond quickly to market changes and quick response customer requirements requiring finished leather and/or part finished leather necessitating partial integrations back and up the leather processing chain. Some of this activity is being driven by customer needs to get Australian processed product in early stage form or even salted hides to lower import tariff rates to make final product price competitive;
 - compete actively with export customers who have free and unfettered access to Australian hides and skins unlike some competitor countries who have restrictions on hide and skins exports except in finished leather or leather good form;
 - be excluded from some export markets such as China, USA and Italy who have higher tariffs on finished leather than Australia (China's most favoured nation rate for leather varies from 9-14% and general tariff rate is 50%, whilst Australia's rate is 5%);
 - not be able to access tanning chemicals at the same time as overseas competitors because of timing delays forced by NICNAS, although the same chemicals have undergone stringent testing in countries with equally strict environmental regulations, eg Germany; and
 - it has had to compete in a fierce, competitive market environment that requires high standards of quality assurance, quick response and with comparative disadvantages in reciprocal tariff rates, labour costs, exchange rates, lack of a significant domestic market, the relocation of Australian leather goods

manufacturers to Asia and SE Asia, free market access for imported leather produced overseas.

Against the above overview the Australian leather industry argues that it is an integral part of meat processing and leather goods manufacturing supply chain; already operates in a global competitive market place; has undergone and continues to undergo significant industry restructuring and adds significant value to Australian raw materials, regional and metropolitan employment and is an important export sector for the Australian economy.

AALI actively participates in reviews of industry strategic direction and its views are broadly in agreement with the direction of the TCFL Forum Strategic Plan. The forum that developed that plan included a significant number of members of AALI.

3. Brief Statistical Snapshot of the Australian Leather Industry

The following is a summary of the most recent trade statistics available. It should be noted there is a paucity of data for the leather sector. The following data was sourced from the Australian Bureau of Statistics, 2003.

AUSTRALIAN LEATHER INDUSTRY EXPORT PERFORMANCE

(a) Bovine

- The majority of Australian raw bovine hides and skins are exported in a whole fresh/wet-salted state, in 2001 US\$198,124,288 were exported.
- The majority of Australian pre-tanned hides are exported in a wet-blue (chrome tanned) state, in 2001 A\$293,114,000 FOB were exported.
- Australia also exports fully tanned leather. In 2001 Australia exported A\$884,000 of whole bovine skin leather, US\$67,810,912 of bovine and equine leather, full or split grain, nes and \$US21,963,824 of bovine and equine leather, nes (not elsewhere specified).

(b) Ovine

- In 2001, Australia exported US\$159,719,568 of raw sheep or lamb skins.
- The majority of pre-tanned sheepskins exported in 2001 were in the otherwise pre-tanned category. In 2001, A\$2,43,000 FOB of otherwise pre-tanned sheep or lamb skins were exported.
- In 2001, Australia exported US\$1,274 worth of sheep or lamb skin leather.

AUSTRALIAN LEATHER INDUSTRY IMPORTS

(a) Bovine

- In 2001, Australia imported US\$526,889 of whole fresh or wet-salted bovine hides. The majority of Australian pre-tanned bovine hide imports are in an otherwise pre-tanned state.

- In 2001, Australia imported A\$6,620,000 FOB worth of otherwise pre-tanned bovine.
 - Australia also imports fully tanned leather. In 2001, Australia imported \$15,567,000 FOB of whole bovine skin leather, \$US43,237,600 of bovine and equine leather, full or split grain, nes and \$US13,669,618 of bovine and equine leather, nes.
- (b) Ovine**
- In 2001, Australia imported \$US89,734 of raw sheep or lamb skins.
 - The majority of pre-tanned sheepskin imports were in the tanned or retanned (excl. pre-tanned, chamois, patent, patent laminated and metallised leather) category, in 2001, A\$1,859,000 FOB were imported.
 - In 2001, Australia imported US\$3,234,119 worth of sheep or lamb skin leather.

The above figures confirm the Australian leather industry's continuing role as a major net exporting sector.

Kangaroo Leather Production

Kangaroo is a unique hide/skin produced in Australia. Kangaroo hides are exported raw or further processed in Australia into leather and leather products. Recent years have seen an increase in the number of hides remaining in Australia for further processing and a larger amount of kangaroo leather and leather products being exported. Kangaroo leather products are renowned for their strength and are in high demand in the footwear industry. In 1999, 360,000 square meters of kangaroo leather was exported valued at A\$9,095,000 FOB.

4. SIP Program Benefits

SIP Programs and the previous Import Credits Schemes have been effective as they have facilitated significant change to the Australian leather industry and have been valuable to the Australian leather industry in that they have:-

- Encouraged the transformation of the industry from a commodity production driven industry to one driven by market and customer demands in both Australia and target export markets;
- Enable capex decisions for new plant and equipment, environmental management systems to be brought forward in uncertain market environments;
- Encouraged investment in innovation research and development as companies seek to differentiate themselves in niche and ultra niche markets;
- Enabled remaining players to purchase state of the art technology to produce leather to higher quality standards. This technology in some cases replaces labour at those parts of the leather making process the incurs unacceptable levels of OH&S injuries or in areas where it is becoming increasingly hard to obtain labour to undertake specific tasks; and

- Enabled industry players to up-skill Australian leather technicians with improved training systems.

The respective performance of some AALI members receiving SIP funds are summarised in the following table:-

Financial Year	1999	2000	2001	2002	Comments
Type of Leather Products Produced	Wet blue leather, Finished leather, footwear (shoe and sports), gloves, furniture leather and automotive crust	Wet blue leather, Finished leather, footwear (shoe and sports), gloves, furniture leather and automotive crust	Wet blue leather, Finished leather, footwear (shoe and sports), gloves, furniture leather and automotive crust and finish	Wet blue leather, Finished leather, footwear (shoe and sports), gloves, furniture leather and automotive crust & speciality leathers	Decline in domestic shoe industry leading to a decline in production
Market Focus	Domestic/Export	Domestic/Export	Domestic/Export	Domestic/Export	One company in 2002 experienced a decrease in exports; increase in local market
Volume of Product Produced (metres)	Measurements differ between companies	Measurements differ between companies	Measurements differ between companies	Measurements differ between companies	
Value of Product Produced(A\$)	\$176.70 Million	\$172.68 Million	\$200.63 Million	\$171.11 Million	Some companies in the survey did not participate in this question
Capital Expenditure /Reinvestment (A\$)	\$2,091,374	\$1,774,880	\$2,027,997	\$4,034,037	Some companies in the survey did not participate in this question
Capital Expenditure Focus	<ul style="list-style-type: none"> 50% growth Manual Handling (OH&S) Technology Upgrade 	<ul style="list-style-type: none"> 50% growth Tanning Tanks Technology Upgrade 	<ul style="list-style-type: none"> 75% growth Effluent Treatment Technology Upgrade 	<ul style="list-style-type: none"> 80% growth Suspended Technology Upgrade 	Some companies in the survey did not participate in this question
Expenditure on production inputs(A\$)	\$123,205,000	\$123,637,000	\$159,093,000	\$140,598,000	Some companies in the survey did not participate in this question. Does not include Depreciation and interest
Number of Employees	601	575	484	436	

The above summary of activity by some AALI members does not represent the entire Australian Leather industry but nevertheless is indicative of overall trends within the industry. AALI submits that the leather industry extends beyond AALI membership. Some other significant industry players are as follows:-

Howe Leather:- While automotive leather is not included in the focus area for the current review, Howe Leather had automotive leather sales of \$195,000,000 in 2002 generated from two plants (Thomastown and Rosedale, Victoria) and employing approximately 300 staff;

New Wave Wet Blue:- Sales of \$130 million employing 150 staff;

Austanners, Colorite and associated smaller tanners:- Estimated sales of \$80 million and employing an estimated 200 staff.

5. AALI Responses to the Productivity Commission Terms of Reference Items

The collective responses of AALI members to the specific terms of reference items are detailed below.

AALI members have attempted to answer the various terms of reference items in a balanced way reflecting the variation of opinion in some cases, the good news and industry constraints and concerns as industry players move forward.

The bullet point [□] comments are verbatim statements from AALI members who were all consulted and given opportunity to provide input into AALI's submission to the Productivity Commission.

These collective responses are then utilised and synthesised in Section 6 to provide AALI's view of key headline components of post 2005 TCF and Leather industry assistance requirements.

5.1 Evaluation of Current TCF Assistance Arrangements:- Comment on the effectiveness, efficiency and appropriateness of current assistance programs such as SIP in meeting the Government's goal of achieving structural change and a more internationally competitive TCF sector by 2005, including a consideration of outcomes at the company level. Comment on minimum expenditure threshold and accumulation time frame (currently \$200,000 and 5 years) program flexibility/rigidity, stimulus to innovation and investment, should leather industries be included in considerations of the TCF industries or as a meat co-product industry or as a leather and leather goods industry in its own right; has the SIP program stimulated industry structural change and enhanced companies capacity to be internationally competitive, eligible and non eligible grant activities etc.

- The minimum expenditure threshold is appropriate because it requires a demonstrated commitment to doing something.
- The accumulation time frame is something that can be lived with, but payment in arrears is difficult.
- SIP has allowed us to develop things faster than normal and some benefits have accrued from bringing new capabilities to market faster.
- Leather industries should stay with the TCF industries.
- Structural change has been continuing for a number of years, as a result of:-
 - (i) Government policy on tariff reductions that has changed the manufacturing base of our customers. Most shoe production is now done overseas;
 - (ii) People leaving the industry and new players emerging; and
 - (iii) Globalisation of the leather market.
- SIP Expenditure threshold/time are o.k. as it discourages non-genuine participants and insignificant players.

- ❑ The hide/leather industry should be regarded as a separate sector, not with the TCF sector player who are not globally competitive.
- ❑ The SIP program has been very successful. We have (and will be) increasing our investment in Equipment and new Technology and processes.
- ❑ There is a lack of certainty and predictability and it is difficult to plan our business. We would like to know in advance which projects will get up (in the area of product development and process improvement)
- ❑ Rate of support for Capital expenditure should be in line with the rates for product development (capex is important for value added and future competitiveness)
- ❑ Our current investment projects will result in a facility that uses world's best practice and will be a global low cost producer.
- ❑ The minimum is not relevant in the main as the industry players as of sufficient size.
- ❑ Leather is best seen as a TCF industry as this looks up the supply chain and accordingly gives the appropriate focus.
- ❑ Our view is SIP has encouraged industry structural change and enhanced companies capacity to be internationally competitive (it could be done a little better)
- ❑ Cheap imports of 'commodity' leather and finished furniture has forced our company to find alternative products and markets in order to survive.
- ❑ The current SIP scheme is geared toward innovative R&D and the assistance allows us to achieve a small margin whilst developing products for these markets.

5.2 Assess Leather Industry Long term Viability and Outcomes of TCF Policy and its Implementation on the Future Leather industry in Australia

5.2.1 Identify and analyse major impediments to long term viability of the leather industries. These would include factors such as cost structures, and market and firm characteristics such as import competition, corporate structure, existence of critical mass, management and workforce skills, the purchasing strategies of major retailers, the ability of the sector to attract investment, and international trading arrangements including market access issues.

- ❑ There is a process of consolidation – with fewer large operators driven by company cost structures.
- ❑ The Australian industry players will be primarily niche and ultra niche players whose competitive advantage will be **Quality** and **Certainty of Supply** to an international market **On Time** and with **Short Lead-times**.
- ❑ The successful companies may have some foreign ownership and have a flexible organization structure.
- ❑ We are concerned about the long-term viability of leather industry. We don't think TCF policy will have much influence.
- ❑ Free-Trade into Australia not reciprocal.

- ❑ “Low Cost” countries who do not adhere to environmental/I.L.O compliance costs
- ❑ Loss of domestic economies of scale/critical mass.
- ❑ Excess capacity of hide-processing industry (as a result of I.C.S {last TCF policy} originally applying to wet-blue). Policy should not repeat this mistake
- ❑ Industry enterprises mainly held in private hands - so investment and capital is subject to the shareholders inclination.
- ❑ Needs some industry aggregation to reach full potential.
- ❑ Well skilled workforce (lacks advanced training infrastructure), lack of availability of new skilled managers. Export focused in the main.
- ❑ Deals within supply chains and does not see retailers directly as primary clients.
- ❑ Has market access issues – for instance, Wetblue Duties to Japan, Duties into China, Crust duties into Italy.
- ❑ Reduction in import tariffs and lack of government support for domestic manufacturing businesses has resulted in many smaller manufacturers going out of business without the opportunity to restructure over time.
- ❑ A number of our major overseas competitors are greatly assisted by their governments making it difficult for Australian manufacturers to compete in domestic and global markets. Costs of manufacturing in Australia, including company tax, payroll tax, superannuation, workers compensation, environmental and health/safety compliance costs, are not burdened on many countries that we compete against, making us less competitive.
- ❑ Cheap imported leather and furniture incorrectly promoted as “Made in Australia” devalues the consumers’ view of leather as a product of quality and longevity, whilst damaging the reputation of Australian furniture manufacturers.

5.2.2 Identify major opportunities for the leather sector and its strengths and weaknesses for securing these opportunities

OPPORTUNITIES:-

- ❑ Technically advanced leathers in high performance areas.
- ❑ Specialty Leathers.
- ❑ Opportunities exist to be a very large leather producer (“Economies of Scale”) or a small ‘Niche Producer’.
- ❑ Further develop niche high value products for global markets.
- ❑ Opportunities in the domestic and overseas markets by creating an ongoing stream of niche products in a low cost environment.
- ❑ Develop world’s best technology practices.

STRENGTHS:-

- Certain raw materials are native to Australia.
- Technical knowledge.
- Current presence in the world market.
- Modern equipment and facilities.
- Meeting international environmental standards and still competitive in niche markets.
- Australia has abundance of raw-material – hides and skins.

WEAKNESSES:-

- Much higher labour and labour on-costs relative to overseas producers.
- Much stricter environmental controls relative to overseas producers.
- Cost of some raw materials in Australia is higher than completed (or semi-finished) imported leathers.
- Major brand names and leather goods manufacturers (eg shoe and gloving) are located overseas.
- Costs to travel/visit/source chemicals that will assist R&D and product innovation.
- Government impediments (including time & priority) to register new chemicals for new technologies.
- Human resourcing from global suppliers/competitors.
- Australian raw-material – hides and skins are freely available even to countries that tax leather imports or cross-subsidize their leather industries. Reciprocity needs to be corrected.
- Distance, fragmentation and capital.
- Need to develop virtual vertical integration – integrate into global supply chains more effectively.
- Pricing pressure from subsidised competitors remains our biggest threat to export sales growth, however we are confident that we can continue to supply to the better end market by offering new and unique products.

5.2.3 Identify policy options including tariff options consistent with the Government's international obligations such as those under WTO and APEC, which would encourage the leather sector to adjust to a more viable and sustainable competitive position

- Without tariff protection, there is only direct support for capital expenditure, R&D, product and process improvement, market development, value added and restructuring.
- There has been global pressure on raw material for many years and this has caused a more viable and sustainable competitive position.

- ❑ The government has to decide that this is an industry they want to keep, and then adopt programs (like in the Car Industry) to make and keep it viable.
- ❑ Import costs and regulations on new innovative chemicals that are not available to us, put us at a disadvantage to overseas competitors. If the industry is to compete in niche markets, it must be at the forefront of technological advances and not trail overseas developments.
- ❑ Full Government support (i.e. HR/Financial) to lobby and change legislation/attitudes in overseas countries that are a barrier to entry, eg kangaroo.
- ❑ We have no security of tenure of raw material: We compete with overseas buyers who purchase hides for use in non-WTO compliant countries. A tariff option would be to deny free hide-access to non WTO/APEC participants. More realistically, emphasis on supply-chain development between domestic players may assist in cementing raw-material supply.
- ❑ Forming a TCF tariff watch committee which pro actively monitors and lobbies on behalf of industry – individual companies lack resources and awareness – this function is generally in the domain of multinationals.
- ❑ The labour component of our finished product is around 15%. Our main competitors cost structure is similar to ours yet many can offer products for sale at significantly lower levels than our cost price. In many cases, this is due to the support they receive from their governments which we assume is not in breach of WTO rules. Whether this is the case or not is hard to confirm.

5.2.4 Analyse the short and long term implications of each policy option for the structure, performance and competitiveness of the leather sector, investment, employment, consumers, resource allocation, flow on effects for other industries, general growth prospects and appropriate role for government. Particular attention should be given to the impact of policy options on those regions where the TCF accounts for a high level of regional industry concentration;

- ❑ The cost of raw material is approximately 60% of the sale price, and raw material has been open to full competition.
- ❑ We believe government policy options no longer have a significant affect and there is little role for government now that “free-trade” strategy has been adopted by successive governments.
- ❑ Security of access to raw material would allow long-term planning/quality control enhancement and overall certainty.
- ❑ Particular attention should be given to the impact of policy options on those regions where the TCF accounts for a high level of regional industry concentration.
- ❑ To maintain competitiveness, it is vital that our business is competing in a level playing field – which we believe is not the case. As we have no significant domestic competitors, it is very important for the industries that we supply that we remain in business to support the domestic manufacturers in order that they remain competitive – particularly in the niche markets that require innovation and quality. We indirectly

employ hundreds of people as we have distributors in Australia and overseas that are reliant on our existence. We are a significant employer in our area and have reduced our employee numbers by more than half since the discontinuation of the Import Credit scheme. Removal/reduction of the SIP scheme would result in further job losses whilst increasing short/medium term government support compliant with International trade laws would result in increased direct and indirect employment.

5.2.5 Examine relevant workplace issues including the more effective use of flexible modes of employment, labour mobility in and out of the sector, especially in regional Australia, and the scope of innovative workplace reform including policy options to improve the competitiveness of the sector;

- There is a fundamental need to build and maintain a highly skilled workforce and mobility is not consistent with this aim. Retention of skills and take up of new technology from overseas is vital.
- Workplace reform needs to cancel penalty rates – i.e. Total time worked at single rates e.g. time in lieu; average hours etc of overtime.
- Relaxation of unfair dismissal laws, which continue as an impediment to hiring.
- Redundancy payment “cancelled” if another position obtained by recipient i.e. hold-back payments.
- Our sector has seasonal considerations on both the supply (meat industry seasonality) and sales side seasonality.
- We are obliged to have permanent employees unless we hire via 3rd parties at higher cost.
- We lack flexibility in work hours and shift start and end times.
- There are no set exit strategies for workers who have contributed well to the organisation but are reaching retirement age.
- Our employees are trained in multiple skills to ensure that we remain flexible and low cost in a global sense. TCF training initiatives are critical to assist in this process. Many of our competitors are operating in very low labour cost countries so it is critical that we remain as flexible and low cost as possible.

5.2.6 Report on the likely impact on the leather industries of international trade developments, including, but not limited to, the DOHA round of trade negotiations and proposed Free Trade Agreements.

- The leather industry is already working in an open environment. Help is required with other countries that have high import duties, eg China and Japan.
- Australia tends to lead world trade developments with the inevitable erosion of Australia’s Competitive Position.

- ❑ More free trade agreements will result in less of our labour-intensive industries such as footwear TCF.
- ❑ Free trade agreements will not be supported by our business unless our competitors are subjected to the same regulations. High import duties in many countries that we wish to supply make exporting impossible due to the high level of protection of their domestic markets. We strongly believe at this stage that maintaining the current import duty on leather into Australia is critical to the long term survival of Australian leather industries.

5.2.7 Any other comments pertinent to the review or the leather industry submission not covered above.

- ❑ In summary, we are not competing in a level playing field in global leather markets. Tax breaks, employment incentives, free (or subsidised) land, plant and equipment, export incentives, domestic protection, low manufacturing compliance costs and other unpublicised support mechanisms for overseas competitors affect our ability to grow and employ Australians on a continual basis. Therefore, it is critical that our Government support local leather manufacturing operations in different forms and discourage the ease of export of our valuable and scarce raw materials which discourages local job creation and is a negative factor for our balance of payments.

5.3 What Should the Nature and Extent of TCF Industry Support Measures for the Leather Industries Post 2005?

- ❑ The government should continue with the program because the impact of indirect taxation and added compliance costs has been continuing imposts.
- ❑ Overseas countries that are major players in the industry (eg China) do not have the same Free Trade agenda. Continuing assistance is required to help keep a level playing field.
- ❑ If support measures continue they should relate to value-added (as I.C.S.). Not investment or R&D, per se.
- ❑ We would like to see the continuation of SIP with some minor amendments:-
 - Inclusion of current state of the art second hand equipment as eligible
 - The 5 percent cap on value added removed or redefined to include expenses like Depreciation and Repairs and maintenance
 - The recognition of offshore assembly with the definitions, where Australian materials are re- imported thus facilitating indigenous supply chains.
 - Drop the type 4 and 5 ties to regional restructuring and make it eligible for Metropolitan activities as well
 - Ensure that there are no redefinitions of early stage processing so all pre existing eligibility remains as is. I.e. Post Wetblue activity is eligible.

- ❑ Restructuring of our business is a medium to long term plan and continued Government assistance during this period will be critical to ensure our ongoing viability. We strongly consider that the TCF SIP scheme should be extended beyond 2005 as the support for innovation gives us the opportunity to focus on the future rather than simply react to market forces.

6. Required Components for Leather Industry Assistance Post 2005

This section builds off the collective responses of AALI members shown in Section 5 of this submission. AALI is mindful that this submission forms part of initial submissions that will enable the Commission to come to an informed view on future industry trends and industry assistance measures that will facilitate the development of ongoing industry restructure and achievement of global competitiveness.

AALI submits that post 2005 assistance to the players in the Australian leather industry should continue but have a phase out horizon of 2010. The following key components should be included in leather industry assistance packages post 2005:

- The Federal Government acknowledges that there is a need to encourage the maintenance and growth of an Australian based leather industry focussed on developing globally competitive niche and ultra-niche product development and marketing strategies. That acknowledgement would recognise that:-
 - The leather industry is an important partner in processing co-products from the Australian meat processing and kangaroo harvesting industry;
 - The leather industry is an important employer of people in both regional and metropolitan Australia;
 - The leather industry is an effective contributor to export income from Australia;
 - Leather industry restructure is ongoing and leather industry players need time to develop new innovative products for domestic and export market customers; and
 - The leather industry can work effectively in supply chain arrangements with players in the Australian TCF industries in global competition with overseas leather manufacturers.
- AALI acknowledges that the industry restructure and assistance programs such as the previous Imports Credits Scheme and the Strategic Investment Scheme have been effective in facilitating industry restructure and the positioning of companies for global competitive pressures. However, AALI recognises that Federal Government based assistance schemes can not proceed indefinitely and that any scheme post 2005 should be phased out by 2010.
- Amendments to post 2005 assistance measures should be as follows:-

Revert to Coordinated Current Financial Year Funding Arrangements

Companies who have been recipients of pre-2005 assistance measures should continue to receive assistance but with removal of the retrospective funding arrangements and revert to a current dollar for dollar funding arrangement within current financial year time periods. Payment would be on the basis of contracted performance milestones with fully documented costing of expenditures.

Amendment to \$200,000 Threshold for Newly Emerging Companies

New emerging companies will find the \$200,000 threshold hard to achieve and there should be a scheme variation for proven new and emerging schemes to receive industry assistance with a focus on market development, research and development and product innovation.

Allow Metropolitan as Well as Regional Cluster Industry Development Funding Eligibility

The current focus is on regional development. AALI submits that it is equally important to focus on the development of competitive metropolitan industry clusters given leather industry proximity to meat processors, availability of skilled labour and down stream leather manufacturer participants in the respective supply chain arrangements.

Increased Flexibility in Accessing Assistance Funds for Research and Development and Product Innovation

Companies are seeking to differentiate themselves with market focussed research and development programs leading to high quality product innovations. AALI submits that provided players submit commercial in confidence R&D plans linked to market outcomes that are easily distinguished from business as usual R&D then these project should be eligible for assistance funding.

Ongoing Assistance Programs for Capital Development Programs

The restructure and emergence of a “new Australian leather industry” is proceeding. Market and environmental compliance requirements are putting pressure on players to undergo capital refurbishment of both plant and buildings. Industry assistance funds assist players to bring forward capital investment decisions in uncertain market environments. AALI submits these capital expenditure programs should continue to receive assistance until 2010 provided the capital expenditure is linked to defined increases in export market sales. Eligible capital expenditure funding should extend to state of the art second hand equipment.

Extension of Industry Assistance Measures to some Vertical Integration Activities

Market requirements demand that Australian leather industry players will need to provide both domestic and export customers with part tanned and finished leathers depending on end market uses. AALI submits that provided players can demonstrate

market pulled demand for part tanned leather products then capital expenditure and product innovation grants should be extended up stream processing activities such as wet blue production.

AAI members nominated earlier in this submission offer an invitation to Productivity Commission TCF Inquiry Commissioners to visit their respective businesses to meet one-on-one with company management to get more detailed and specific perspective on the issues raised above.