Minister's letter to Senator Carr

The Department is not aware of and has no knowledge of the letter that Senator Carr referred to at the public hearing on August 3. The Department has also checked with the Office of Minister Macfarlane and they too have no knowledge of the letter.

Formal consultation and advice to industry

Extensive and regular consultations, communication, and discussions between the Department and industry stakeholders occurred in the 12 month period after the Productivity Commission inquiry was announced in December 2002. The Department met with industry associations, individual companies, other stakeholders as well as attending the Productivity Commission public hearings, over this timeframe.

On the day of the Government's announcement (27 November 2003) the Minister wrote to key industry associations, major TCF companies, the Textile Clothing Footwear Union of Australia, and his state ministerial counterparts advising them of the Government's Post-2005 TCF package.

The Technical Textiles and Non-Woven Association (TTNA) and Australian Association of Leather Industries (AALI) received letters from the Minister. In particular the letters to these two associations explained the Government's policy that there would be a redirection of program support to those firms that still faced tariff adjustment, and as a result technical textiles and leather firms respectively would only be able to access Type 1 grants for new capital equipment under the extended TCF SIP Scheme and that technical textiles and leather firms would be eligible to claim for the new brand support provisions. These two associations were also advised that amendments to the current TCF SIP would be made to remove the 5 per cent value added cap applying to Type 3 grants for technical textiles and leather firms, thereby potentially increasing the support that these firms can draw from the final two years of the current Scheme.

All TCF SIP registrants (at the time of the announcement) were advised of the Government's Post-2005 TCF package by letter during the first week of December 2003.

Details of the Post-2005 TCF package were also posted on the Department's website on 27 November 2003.

The Department undertook a series of formal information and consultation sessions over the period February 23 through to March 1, 2004:

- February 23 Perth
- February 24 Adelaide
- February 25 Melbourne
- February 26 Launceston
- February 27 Sydney
- March 1 Brisbane

All SIP registrants were faxed invitations on 23 January 2004 and provided with a summary of the proposed key changes to SIP. Advertisements were also placed with the ATF Portal (an industry-based website) and the Australian Financial Review. In addition, the Department also wrote to key industry associations (including the TTNA and AALI) and the TCFUA inviting them to attend the sessions. The seminars were promoted in AusIndustry's newsletter *TCF Strategic News*. Attendees at the sessions were provided with an overview of the Government's Post-2005 TCF package, and asked to provide comments and feedback on the proposed changes by March 19, 2004. The slide presentation used at the presentations is attached.

Additionally, a presentation on the Post-2005 TCF package was given in Geelong on March 11, 2004.

Meeting with the TTNA

Representatives of the TTNA met with the Minister's adviser on 7 November 2003 in Melbourne. Departmental representatives also attended the meeting.

Mr Andrew Minter

A company associated with Mr Minter has been registered for TCF SIP since the commencement of the Scheme. As a TCF SIP registrant the company was included in the distribution list for the relevant notifications (1st week of December, 2003 and 23 January 2004) in relation to the Post-2005 TCF package. The notifications were sent to the contact person and address provided by the company at the time of their most recent registration.

Drafting instructions

Preliminary drafting instructions with respect to the current Bill were issued on 2 February 2004. These instructions were based on the Government's announcement in relation to the level of funding available for the extension of TCF SIP, and the reduction in grant types from 5 grant types to 2. The current Bill before Parliament provides the overarching framework for the subsequent formulation by the Minister of the TCF Post-2005 (SIP) Scheme (which is a disallowable instrument).

The industry consultation process conducted since the announcement of the package has played a role in informing the drafting instructions with respect to the formulation of the TCF Post-2005 Scheme. In particular the industry consultations have led to drafting instructions being issued that incorporate the industry's desire to have unspent funds in any program year to be carried forward to the next program year and for a firm's grant eligibility in excess of 5 per cent of Total Eligible Revenue being carried forward to the next program year.

Revised modelling with respect to employment outcomes

The Department commissioned Econtech to update the modelling they had undertaken on behalf of the Productivity Commission and to base their modelling on the parameters of the Government's announced Post-2005 TCF package.

Econtech's original modelling for the PC was based on the PC's recommended program and tariff changes, indicated TCF job losses of 9,563 in the long run (2005 to 2020). The subsequent modelling on the Government's actual announced decision revises this figure to TCF job losses of 5,815.

The sectoral breakdown of these job losses are as follows:

TCF Sector	Job losses
Textile Fibre, Yarn & Woven Fabric Mfg	549
Textile Product Mfg	38
Knitting Mills	1,031
Clothing Mfg	4,139
Footwear Mfg	69
Leather and Leather Product Mfg	+10 (jobs gain)

It should be noted that the reduction in tariffs in 2010 and 2015 are moderate when compared to the annual reductions in TCF tariffs that occurred during the 1990s. The lesser order of magnitude with respect to the size of the 2010 and 2015 tariff reductions means that the employment impacts will be not be as great as those that accompanied the significantly larger tariff reduction during the 1990s.

The Victorian Government in its commissioned modelling predicted job losses of 3,977 Victorian TCF jobs in the long-run (2005 – 2020).

Assumptions utilised by Econtech

Prior to the PC Inquiry, the main TCF industry assistance arrangements (column 2 of Table 1) that were set to apply from 1 January 2005 were:

- tariffs, reduced to 17.5 per cent for clothing and finished textiles, 10 per cent for cotton sheeting, fabric, carpet and footwear and 7.5 per cent for sleeping bags, table linen and footwear parts; and
- no SIP; the Government's SIP funding was scheduled to finish in 2005.

Table 1
TCF Industry Assistance

	Current (to 2005)	Old Policy Post 2005	New Policy Post 2005
TCF tariff rate:			
Clothing; finished textiles	25.0%	17.5%	5.0%
Cotton sheeting and fabrics; carpet; footwear	15.0%	10.0%	5.0%
Sleeping bags; table linen; footwear parts	10.0%	7.5%	5.0%
SIP assistance 2005-2010		$0m	$500m
SIP assistance 2010-2015		$0m	$100m

In response to the PC Inquiry, the Government announced a new tariff reduction schedule and level of direct TCF industry support (column 3 in Table 1). The main assistance initiatives under the Post 2005 Package are as follows.

- tariffs rates gradually reducing to a rate of 5 per cent in January 2015 for all TCF products.
- SIP assistance extended, providing:
  - $500 million from 2005 to 2010 – with a modest redirection of assistance towards those sectors which employ most of the TCF workforce and face the greatest tariff adjustment.
  - $100 million from 2010 to 2015 – available only to clothing and finished textile firms.

The Department of Industry, Tourism and Resources commissioned Econtech to update its original modelling to estimate the impact of this new TCF assistance policy. This update involves modelling the new assistance package, as outlined in the third column of Table 1.

Technical features of the Econtech Model

Econtech uses the MM600+ model. MM600+ is a long-term CGE model of the Australian economy that models a long-run equilibrium. MM600+ is highly detailed, distinguishing 672 products produced by 108 industries.

The high level of product detail means that many policy changes can be analysed without the need for further disaggregation of the product detail. It also means that the gains from some micro-economic reforms can be more fully captured.

MM600+ has many features that are important for this analysis as follows:

- it fully incorporates the New Tax System (NTS) and models the GST treatment of each of its 672 products, and 24 other indirect taxes;
- it includes a production tax for each of the 672 products, which enables the production subsidies under SIP to be modelled;
- it also includes a tariff for each of the 672 products, which enables TCF tariffs to be modelled;
- it contains a high level of detail of the TCF industry, with 6 TCF industries producing 57 products. The 6 industries are listed below.
  - Textile fibres, yarns and woven fabrics
  - Textile products
  - Knitting mill products
  - Clothing
  - Footwear
  - Leather and leather products;
- it allows for the substitution effects triggered by changes in the prices of goods and services. For example, on the production side of the economy, MM600+ allows for substitution between:

  - labour and capital;
  - different types of capital inputs such as motor vehicles, computers, buildings etc;
  - different forms of primary energy, including black coal, brown coal, and LPG;
  - local and export destinations for sales; and
  - of particular importance for this report, imports and local sources of supply of goods and services.
- it provides valid measures of changes in consumer welfare or living standards based on compensating and equivalent variations so that possible tariff options for the TCF sector beyond 2005 can be correctly evaluated in terms of the public interest.

At the same time, as with any exercise estimating the economy-wide effects of policy changes, the results are indicative rather than precise. This is because there is a margin of uncertainty around the true values of key economic parameters. Additionally, the estimates produced with respect to the economy-wide gains associated with the modelled policy are conservative, as the estimates do not take into account the dynamic gains from sources such as improved allocative efficiency, and ongoing improvements in productivity at the firm level.

Small Business specific programs run by the Department

The Department runs the following programs targeted specifically towards the small business sector:

Small Business Assistance Program (SBAP)

Funding of $60 million over four years from 1 July 2002 for the SBAP was announced in the May 2002 budget. The SBAP comprises three merit based grants program which aim to contribute to small business viability and growth. The three grant types are:

- Small Business Enterprise Culture (SBEC),
- Incubators (SBI), and
- Answers initiatives.

Under the program $36 million has been allocated to develop the skills of small business owners/managers, and foster business incubation and $24 million has been provided for the Small Business Answers initiative. The Answers initiative improves the capacity of small business to obtain information and advice on small business issues.

Since the commencement of the SBEC initiative in 1999, 217 organisations have received or been approved for funding totalling approximately $15m. The opening of Round 8 of SBEC funding was announced on the 7 May 2004 and closed on 18 June 2004. Successful applicants are expected to be announced in September.

Since the inception of the SBI initiative in 1995, the Government has supported the establishment of approximately 96 incubators across Australia. SBIs have graduated around 1500 businesses and are supporting a further 1200 or so tenants.

A total of 45 service providers have been funded to deliver their services throughout regional Australia under the Small Business Answers initiative.

Other Government Assistance to the Small Business Sector

The following initiatives have also been introduced by the Government to assist small business:

- Modernised the tax system by abolishing indirect taxes such as wholesale sales tax and provisional tax;
- Freed up the workplace relations system to provide greater flexibility for small business operators;
- Improved access to government information, services and transactions through free small business advisory services such as, the Business Entry Point, which can be accessed on www.business.gov.au, and the more recently launched www.smallbusiness.gov.au.
- Implemented initiatives such as Regulatory Impact Statements, Regulatory Performance Indicators and time boxes aimed at monitoring and measuring the amount of regulation affecting small business;
- Allocated a further $5.3 billion to science and innovation under the *Backing Australia's Ability – Building Our Future through Science and Innovation* package, which builds on its $3 billion *Backing Australia's Ability* strategy announced in 2001. Under this initiative, the Government is:
  - Introducing a new $1 billion Commercial Ready Program that aims to strengthen the capacity of Australian small and medium sized businesses to undertake research and development, proof-of-concept, technology transfer and early stage commercialisation. The package provides an opportunity to facilitate the commercialisation of Australian ideas and enhance our international competitiveness; and
  - Maintaining the growing investment by small business in research and development, by introducing a tax offset for small firms under R&D Tax Concession.

The 2004-2005 Federal Budget also contained a series of initiatives for small business including, significantly reducing red tape for small businesses that voluntarily register for GST.

TCF SIP: The $200,000 Investment Threshold

The TCF SIP Scheme requires threshold expenditure of $200,000 to be invested in new plant and equipment and R&D/product development over the life of the Scheme before grants can be made.

The framework for the TCF (SIP) Scheme is based on the premise that the key to sustainable and internationally competitive TCF industries in Australia lies in significant investment in new plant and equipment and R&D/product development. The Scheme is meant to encourage these activities and provide tangible benefits to businesses that do engage in them. For these reasons, and in the interests of containing administrative costs of the Scheme, the five year $200,000 threshold was adopted; this equates to an expectation that a firm would invest an average of at least $40,000 per year for the life of the Program.

Data sourced from the Australian Bureau of Statistics showed that five per cent of the 6,000 firms in the TCF industries in 1995–96 accounted for 96 per cent of the industry gross product of just over $3 billion.

TCF SIP: Allowable Overseas R&D activity

Under the TCF (SIP) Scheme (section 17), a research and development activity must be directed at a product or process. If the activity is not Australian-based, the activity must be necessary to carry on an Australian-based research and development activity (for example, product testing at a facility that is not available in Australia) or to tailor an Australian-based research and development activity to the requirements of a particular market. This is the only provision in the TCF (SIP) Scheme that allows an entity to claim some overseas expenditure.

In the 2002/03 program year a total of 9 companies utilised this provision.

It is expected that the proposed TCF Post-2005 (SIP) Scheme will contain the same provision.

TCF SIP: Leather and Technical Textiles Type 2 (innovation) claims

Under the current scheme, and not withstanding the various capping arrangements that apply, Type 2 grants are paid at the rate 45 cents in the dollar. The Post-2005 SIP Scheme will increase the rate of payment for Type 2 grants to 80 cents in the dollar.

The technical textile sector in financial year 2003/04 was paid $1.04m in Type 2 grants. Because of the higher rate for Type 2 grants in the extended SIP this equates to approximately $1.84m. If technical textiles were to have access to Type 2 grants in the extended SIP, the additional call on the extended SIP would be $1.8m per annum or $9m in total.

The leather sector in financial year 2003/04 was paid $1.9m in Type 2 grants. Because of the higher rate for Type 2 grants in the extended SIP this equates to approximately $3.37m. If the leather sector was to have access to Type 2 grants in the extended SIP, the additional call on the extended SIP would be $3.4m per annum or $17m in total.

The combined impact of enabling the leather and technical textiles sectors to have access to Type 2 grants in the extended SIP would be $5.2 m per annum or $26m in total.

Technical Textiles access to generic R&D programs

For the past two years as at the end of December 2003, companies within the technical textiles sector received grants of $2.4m under the R&D Start program, $1.9m under Tradex, and $0.1m under the Comet program. This is total of $4.4m over the previous 2 years. It is interesting to note that companies in this sector have received as much innovation support through generic R&D programs as from SIP over the last 2 years.

Technical Textile employment data

Employment data with respect to technical textiles is not available from existing Australian Bureau of Statistics data sets. The technical textiles sector is also not easily identifiable through the Australia and New Zealand Industrial Classification categories.

In reviewing the most recent SIP registrants list for those companies that may fall into the category of technical textiles, and on the information provided by those companies, an estimate of the employment is approximately 2,600. This figure does however need to be heavily qualified and is likely to be overstated because it includes the total employment figures of a number of firms who operate in more than one TCF sector.

The relevant industry association – the TTNA – has surveyed its 14 member companies and claims that there are 8,000 people employed in the sector. It should be noted that not all of the of the TTNA’s membership is involved in the manufacture of eligible TCF products, and the claimed employment figure is likely to also include a number of firms who operate in more than one TCF sector.

Average Turnover of TCF SIP registered firms

Based on information supplied by SIP registered companies for Program Year 3, the Total Eligible Revenue (TER) for these companies was $4.7b. Total Eligible Revenue is a proxy for turnover (basically total sales less sales to New Zealand). This equates to an average TER of $15.4m per firm, or a median TER of $7m per firm.

Based on 2001 ABS Manufacturing Survey data the average turnover of TCF firms in 2001 was $1.71m per firm.