

# Chapter 1

## Introduction

### The inquiry

1.1 The Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009 was introduced into the House of Representatives on 25 November 2009.

1.2 On 26 November 2009, at the recommendation of the Senate Selection of Bills Committee, the Senate referred the provisions of the bill to the Senate Economics Legislation Committee for inquiry and report by 25 February 2010.

1.3 The Senate Selection of Bills Committee gave the following reason for referral, 'To examine the extent of support for industry through the grants and subsidies paid under the scheme.'<sup>1</sup>

1.4 The committee wrote to a number of relevant organisations and stakeholder groups, seeking their comments on the provisions of the bill, and the inquiry was advertised in the national press inviting written submissions by 18 December 2009. The committee received 8 submissions, as listed at Appendix 1.

1.5 All evidence provided to the inquiry is available on the committee's website at [http://www.aph.gov.au/Senate/committee/economics\\_ctte/textiles\\_09/index.htm](http://www.aph.gov.au/Senate/committee/economics_ctte/textiles_09/index.htm).

1.6 The committee appreciates the time and effort of all those who participated in the inquiry. Their work has assisted the committee considerably in its inquiry and the committee thanks them for their contributions.

### Background

#### *Textile, Clothing and Footwear Industries in Australia: reform and assistance*

##### *A history of reform*

1.7 Under the 1987 Textile, Clothing and Footwear (TCF) Industry Plan a process of reducing tariffs on TCF items was undertaken, and since then a long term programme of trade liberalisation for the TCF industries has ensued. Following the 1987 Industry Plan, the 1991 Industry Statement set out a tariff phase down programme, which envisaged a maximum tariff rate on TCF items of 25 per cent by the year 2000.<sup>2</sup>

---

1 Senate Selection of Bills Committee, *Report No. 18 of 2009*, 26 November 2009, Appendix 7.

2 Department of the Parliamentary Library (DPL), Bills Digest No. 126, 1998-99, *Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 1999*, 1999, pp 1-2.

1.8 In September 1997, the Government announced a pause in the tariff phase down programme, to take place from July 2000 until the end of December 2004, with a further reduction in the tariff to apply from 1 January 2005. The tariff pause was part of the 1997 TCF Package aimed at restructuring the industries and increasing their international competitiveness.<sup>3</sup>

1.9 The *Textile, Clothing and Footwear Strategic Investment Program Scheme Act 1999* was introduced to establish a Strategic Investment Program (SIP) for the industries, as part of the wider 1997 structural reform package. The objective was to provide positive incentives to TCF activities which were likely to become internationally competitive under lower tariff rates after 2005, via special assistance for a limited time period.<sup>4</sup>

1.10 In November 2003, following the Productivity Commission's *Review of TCF Assistance*, the Government announced a new assistance package for the TCF industries. The 2003 package extended the tariff pause until 2010, at which time most tariffs would reduce to 5 per cent, with the exception of tariffs on apparel and certain finished textiles, which would be reduced to 10 per cent in 2010 and then 5 per cent in 2015. Further, the package provided for the extension of the SIP scheme beyond the year 2005, and assistance provided under the scheme was modified.<sup>5</sup>

1.11 Assistance for the TCF sector is currently provided for under the *Textile, Clothing and Footwear Post-2005 Strategic Investment Program Scheme 2005*, (TCF Post-2005 (SIP) scheme) which is established under the *Textile, Clothing and Footwear Strategic Investment Program Scheme Act 1999*.

1.12 TCF Post-2005 (SIP) scheme which is currently in force, provides for two types of grants and is capped at \$488 million for the income years 2005-06 to 2009-10, and \$88 million for the 2010-11 to 2014-15 income years. Type 1 grants provide for a 40 per cent capital investment subsidy, while Type 2 grants provide for an 80 per cent innovation subsidy, and both types of grants are paid in arrears based on demonstrated performance.<sup>6</sup>

---

3 DPL, Bills Digest No. 126, 1998-99, *Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 1999*, 1999, pp 1-2.

4 DPL, Bills Digest No. 126, 1998-99, *Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 1999*, 1999, pp 1-2.

5 DPL, Bills Digest No. 105, 2003-04, *Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004*, 5 March 2004, pp 1-3; DPL, Bills Digest No. 48, 2004-05, *Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 Scheme) Bill 2004*, 26 November 2004, pp 1-2.

6 DPL, Bills Digest No. 48, 2004-05, *Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 Scheme) Bill 2004*, 26 November 2004, p. 3.

---

### *Current challenges*

1.13 While some segments are globally competitive, the Australian TCF industries overall are in decline. The size of the TCF manufacturing industries in Australia has reduced, with imports now surpassing exports by a factor of 5 to 1. However, the technical textiles and non-woven sector remains strong and retains an export focus.<sup>7</sup>

1.14 Although the TCF industries overall have experienced decline in recent years, they still have an output value of \$2.8 billion, and \$1.6 billion in exports.<sup>8</sup>

1.15 On a global level TCF industries in developed, high wage economies such as Australia are facing challenges of low cost competition and increasing demand for new technologies and skills. The industries in Australia will also have to manage the further tariff reductions which took place on 1 January 2010. The TCF industries will continue to experience structural change due to growing global and domestic competition.<sup>9</sup>

### *Review of the Australian Textile, Clothing and Footwear Industries*

1.16 On 8 March 2008, the Minister for Innovation, Industry, Science and Research, Senator the Honourable Kim Carr, announced a Review of the Australian Textile, Clothing and Footwear Industries, to be undertaken by Professor Roy Green in consultation with an industry reference group.<sup>10</sup>

1.17 The review was to identify strategies to enable the TCF sector to manage the competitive challenges it has been facing. The Minister stated:

The review will take into account the changing nature of the industries in the TCF sector and assess their current performance and prospects. It will seek to ensure that TCF industries are able to take advantage of new technologies and new research and have the skills and strategies that are needed to compete in the global market place...The appropriateness and

---

7 R. Green, *Building Innovative Capability: Review of the Australian Textile, Clothing and Footwear Industries*, 2008, pp viii and 2; CSIRO, *Submission 08/294 To the Commonwealth Government's Review of the TCF Industries*, May 2008, p. 8, attachment to CSIRO, *Submission 5*.

8 CSIRO, *Submission 08/294 To the Commonwealth Government's Review of the TCF Industries*, May 2008, p. 8, attachment to CSIRO, *Submission 5*.

9 R. Green, *Building Innovative Capability: Review of the Australian Textile, Clothing and Footwear Industries*, 2008, pp viii and 2.

10 Senator the Hon. Kim Carr, Minister for Innovation, Industry, Science and Research, 'Government Announces Review of Textile, Clothing and Footwear', Press Release, 8 March 2008.

effectiveness of assistance provided to the industry will be examined, as will the existing structural adjustment assistance measures.<sup>11</sup>

1.18 The resultant report *Building Innovative Capability: Review of the Australian Textile, Clothing and Footwear Industries*, was publicly released on 19 September 2008. The report made 15 recommendations, with the first recommendation proposing 'a shift in the organising principle of industry assistance from structural adjustment to a new focus on building innovative capability at the level of the enterprise and workplace.'<sup>12</sup>

### ***The Textile, Clothing and Footwear Innovation Package***

1.19 In response to the review report, on 12 May 2009 the Australian Government announced the Textile, Clothing and Footwear Innovation Package as part of the Federal Budget.

1.20 The package provides \$401 million in funding for the TCF sector from 2009-10 to 2015-16, redirecting \$55 million towards innovation, and providing additional funding of \$10 million. Among other measures, the package establishes:

- the TCF Strategic Capability Program, a new \$30 million initiative to support large projects which increase innovation capacity and performance at the enterprise level; and
- the Clothing and Household Textile Building Innovative Capability Program (based on the existing TCF Strategic Investment Program), an initiative to support investment and innovation, with \$25 million in additional funding.<sup>13</sup>

1.21 A Consultation Paper on these two programmes was released in September 2009. Public consultations took place at selected centres in Australia throughout September and written comment from stakeholders was invited by the end of that month. The TCF Industries Innovation Council also discussed the Consultation Paper at its meeting in September 2009. Following the consultation process, it is expected that the draft guidelines for both programs will be available for comment in February 2010, with the objective of finalising the guidelines by April 2010.<sup>14</sup>

---

11 Senator the Hon. Kim Carr, Minister for Innovation, Industry, Science and Research, 'Government Announces Review of Textile, Clothing and Footwear', Press Release, 8 March 2008.

12 R. Green, *Building Innovative Capability: Review of the Australian Textile, Clothing and Footwear Industries*, 2008, p. ix.

13 Senator the Hon. Kim Carr, Minister for Innovation, Industry, Science and Research, 'Building Innovation in Textile, Clothing and Footwear', Press Release, 12 May 2009.

14 Department of Innovation, Industry, Science and Research, *Textile, Clothing and Footwear Consultation Paper on the Textile, Clothing and Footwear Strategic Capability Program Clothing and Household Textile Building Innovative Capability Program*, September 2008, p. 2.