

Chapter 3

Issues

3.1 This chapter examines the main issues and concerns raised during the committee's inquiry into the Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009. The principal matters raised in the evidence provided to the committee concerned difficulties with examining the detail of the scheme, and the eligibility criteria under the scheme.

The bill

3.2 Some submitters stated that more needed to be done to support the industry as a whole, with the Australian Council of Wool Exporters and Processors commenting that they regard 'this as a disappointing opportunity to embrace a “whole of industry” approach.'¹

3.3 While Bruck Textiles noted their disappointment with the Textile, Clothing and Footwear (TCF) Innovation Package as a whole, they recognised the purpose of this bill, stating:

...it is vital that this Bill be passed as it will accord the continuation of the assistance that was always scheduled for this sector industry under the former TCF (post 2005) Strategic Investment Program.²

3.4 Professor Roy Green who led the Review of the Australian TCF Industries provided further support for the bill, noting that although:

...a broader whole of government approach will ultimately be needed. In the meantime, this Bill is an important step in the right direction for the TCF industries...I wish to reaffirm the argument of my report and commend this Bill to the Committee.³

Details of the scheme

3.5 The Australian Industry Group suggest that the detail of the Clothing and Household Textile (BIC) scheme should provide for streamlined application and decision making processes. This would allow for faster decisions, increased transparency, reduced red-tape and administration costs, and improved scheme effectiveness.⁴

1 Australian Council of Wool Exporters and Processors, *Submission 6*, p. 1.

2 Bruck Textiles, *Submission 2*, p. 2.

3 Professor Roy Green, *Submission 1*, p. 1.

4 Australian Industry Group, *Submission 3*, p. 2.

3.6 Bruck Textiles observe that the bill itself simply provides the framework to establish the Clothing and Household Textile (BIC) scheme, and does not provide the detail of the scheme. This makes it difficult for industry bodies to determine whether they will be eligible for funding under the scheme:

Bruck, by virtue of its window furnishings manufacture, will still be eligible to claim for funding under the BIC Scheme for certain activities – or certainly, that is the company’s expectation. But this is not entirely clear, as what is missing from the Bill, is the actual Scheme detail outlining how the Program will be implemented and delivered.⁵

3.7 As the detail of the scheme is not available, several submitters note that it is difficult to comment comprehensively on the bill and the scheme.⁶

3.8 Bruck Textiles note that a Consultation Paper was released in September 2009, outlining the draft guidelines for the Clothing and Household Textile (BIC) scheme, and inviting public comment. However, they state that 'nowhere, not even in the earlier Consultation Paper, does the Government specify exactly what products are to be covered'.⁷

3.9 The committee notes that the Consultation Paper does outline the proposed guidelines for the Clothing and Household Textile (BIC) scheme, making the two following proposals which give industry some guidance:

1. In the interests of minimising administrative and compliance costs of BIC, the provisions of BIC are to be based as much as possible on those of the TCF Post-2005 (SIP) Scheme and participation in BIC is to be as seamless as possible for eligible entities between the TCF Post-2005 (SIP) Scheme and BIC.
2. BIC is to provide assistance to clothing and household textile entities in the same way, and subject to the same conditions, as Type 2 grants assist the entities under the TCF Post-2005 (SIP) Scheme, except that innovation grants would be capped at 50 per cent of eligible expenditure rather than the 80 per cent under the TCF Post-2005 (SIP) Scheme.⁸

5 Bruck Textiles, *Submission 2*, p. 2; Technical Textiles and Nonwoven Association, *Submission 7*, p. 2; Carpet Institute of Australia Limited, *Submission 8*, p. 2.

6 Bruck Textiles, *Submission 2*, p. 3.

7 Bruck Textiles, *Submission 2*, p. 3.

8 Department of Innovation, Industry, Science and Research (DIISR), *Textile, Clothing and Footwear Consultation Paper on the Textile, Clothing and Footwear Strategic Capability Program Clothing and Household Textile Building Innovative Capability Program (Consultation Paper)*, September 2008, pp 9-10.

3.10 In addition, the Consultation Paper states that the Government will consult with the clothing and household textile industry on implementation issues, including the headline subsidy rate.⁹

3.11 In its submission the Australian Industry Group encourages the Government to continue consulting with industry as the detail of the Clothing and Household Textile (BIC) scheme is finalised and implementation commences.¹⁰

3.12 The Consultation Paper released by the Department of Innovation, Industry, Science and Research notes that while only one Consultation Paper is envisaged, there will be a second opportunity for public comment once the draft guidelines have been developed. These are expected to be available in February 2010.¹¹

Eligibility criteria

3.13 In section 37ZM the bill gives a broad outline of the types of products which will be eligible for grants under the scheme, providing for:

....the making of grants in connection with, or incidental to the following:

- the manufacture in Australia of products that, under the scheme, are taken to be eligible clothing and household textile products;
- the design in Australia, for manufacture in Australia, of products:
 - (i) that, under the scheme, are taken to be eligible clothing and household textile products; and
 - (ii) some or all of which are intended to be sold in Australia;
- the design in Australia, for manufacture outside Australia, of products to which both of the following apply, if the importation into Australia of some or all of the products is or will be covered by a designated industry program:
 - (i) products that, under the scheme, are taken to be eligible clothing and household textile products;
 - (ii) products, some or all of which are intended to be sold in Australia.

3.14 However, the bill does not define which products are taken to be 'eligible clothing and household textile products'. Further, while the bill provides a definition of clothing/finished textile expenditure under section 4, it leaves the definition of clothing products and finished textile products to be made in the legislative instrument:

9 DIISR, *Consultation Paper*, September 2008, p. 9.

10 Australian Industry Group, *Submission 3*, p. 2.

11 DIISR, *Consultation Paper*, September 2008, pp 1-2 and 9.

clothing/finished textile expenditure means expenditure in connection with, or incidental to, the manufacture in Australia, or the design in Australia, of products that, under a TCF scheme, are taken to be:

- (a) clothing products; or
- (b) finished textile products.

3.15 The committee notes that under the TCF Post-2005 (SIP) scheme, the definition of eligible products was provided in the legislative instrument, and it is expected that definitions will be provided for in the Clothing and Household Textile (BIC) scheme in the same way.

3.16 In light of the information available, various organisations have commented on which entities, activities and products should be eligible for funding under the Clothing and Household Textile (BIC) scheme.

3.17 Bruck Textiles made substantial comment on the entities they considered should be eligible under the scheme, arguing that only companies which can demonstrate significant manufacturing activity in Australia should be eligible under the Clothing and Household Textile (BIC) scheme:

...eligible household textile companies must be required to undertake a certain degree of fabric conversion (ie dyeing, printing, laminating and coated) together with the final production of the household textile product, rather than just cutting and hemming an externally sourced finished fabric.¹²

Further, Bruck Textiles contend that:

...where firms have announced that they are shifting the bulk of their manufacture offshore, they should automatically be excluded from receiving any further funding under the TCF Schemes, or indeed any government scheme designed to encourage and support local manufacturing activity.¹³

3.18 The Technical Textiles and Nonwoven Association (TTNA) take a similar point of view, stating that eligibility for the scheme:

...should be confined to those companies that can demonstrate manufacturing activity in Australia. Members of the TTNA believe that supporting design-related activities would have little or no flow through to manufacturing jobs in Australia and will only serve to place more production off-shore and therefore is of negative value.¹⁴

12 Bruck Textiles, *Submission 2*, p. 3.

13 Bruck Textiles, *Submission 2*, p. 4.

14 Technical Textiles and Nonwoven Association (TTNA), *Submission 7*, p. 2.

3.19 Empire Rose also suggest that the funding provided under the bill should be used to 'maintain some quality domestic manufacture'.¹⁵ The Carpet Institute of Australia Limited go even further, stating that 'the new arrangements must include claw-back provisions for grants made to firms that cease local manufacturing within a specified period of receiving assistance.'¹⁶

3.20 The committee notes that section 37ZM(c) places very specific provisions on the eligibility of products which are manufactured outside of Australia.

3.21 Bruck Textiles also suggest that entities which are eligible under the Clothing and Household Textile (BIC) scheme and 'source locally produced fabrics in their innovative developments be allowed an uplift factor (of say 50%) to the rebate they receive on those projects.'¹⁷

3.22 The Australian Council of Wool Exporters and Processors state that the 'early stage' wool processing industry has been omitted from the scheme, and call for a 'whole of industry' approach.¹⁸

3.23 The TTNA note their objection to the limitation of the scheme to clothing and household textiles, and contend that:

...the BIC Scheme should also include technical and nonwoven textiles for applications other than for household usage...the BIC Scheme should not be restrictive and should support and fortify the union of innovation, technology and capital investment across a number of textile manufacturing processes. To that end, and in light of the governments quest for innovation, we advise that the definition should include value added processes that provide functionality to a product such as (but not limited to) coating and lamination...and others including nonwovens. With profound usage in Australian homes, machine made carpet...could also not intelligently be excluded from the purposes of the BIC Scheme.¹⁹

3.24 The Carpet Institute of Australia Limited (CIAL) also commented on the fact that it does not appear that carpet will be included under the scheme:

An important omission, however, is that the Scheme does not include a list of the industrial activities that are classified as 'household textiles.'... CIAL strongly believes that machine made carpet should be recognised as a household textile for the purposes of the Scheme.²⁰

15 Empire Rose, *Submission 4*, p. 1.

16 Carpet Institute of Australia Limited (CIAL), *Submission 8*, p. 3.

17 Bruck Textiles, *Submission 2*, p. 4.

18 Australian Council of Wool Exporters and Processors, *Submission 6*, p. 1.

19 TTNA, *Submission 7*, p. 1.

20 CIAL, *Submission 8*, p. 2.

3.25 Bruck Textiles further argue that the Clothing and Household Textile (BIC) scheme should encompass:

...companies involved in the production of “Specialised Textiles” that involve further value adding than the basic textile manufacturing processes of weaving, dyeing and finishing. There has been significant change in the textile manufacturing in Australia since the introduction of initial TCF (SIP) Scheme in 2000. The textile manufacturing has moved from the manufacturing of basic commodity fabrics to high value added products.

Therefore the definition of eligible entities needs to be expanded to include the entities producing STRUCTURED and 3 – Dimensional Textiles, multi layered textiles i.e. Coated Fabrics and Laminated Fabrics. These special functional fabrics offer the ability to build innovation capability in Australia that can be marketed internationally. The eligible entities must include entities conducting these activities e.g. Specialised Coating and Lamination, as these processes transform basic textiles into a functional and high performance textiles.²¹

3.26 While the eligibility of such entities will be determined by the definition of eligible products in the legislative instrument, the committee notes that the bill is part of a larger TCF Innovation Package and such entities may be eligible for grants under the Textile, Clothing and Footwear Strategic Capability Program which is open to the wider TCF industries, as well as assistance under schemes which are not specific to the TCF industries.

3.27 Several submitters commented that capital expenditure should be included under the Clothing and Household Textile (BIC) scheme.²² Bruck Textiles contend that capital expenditure relating to the purchase of new plant and equipment should definitely be included, as ‘...much innovative development requires investment in the purchase and development of new equipment, and this can often underscore the very success of the innovation in question.’²³

3.28 However, Empire Rose noted that the bill should establish ‘tighter controls on how funding is used to prevent it from being used for the wrong purposes’, as under the previous scheme, funding was ‘used to purchase property instead of using it to improve businesses’.²⁴

3.29 The committee observes the statement in the Consultation Paper that ‘Grants equivalent to the TCF Post-2005 (SIP) Scheme’s Type 1 grants (in relation to capital investment expenditure) would not be available under BIC.’²⁵

21 Bruck Textiles, *Submission 2*, p. 3.

22 Bruck Textiles, *Submission 2*, pp 3-4; TTNA, *Submission 7*, p. 2; CIAL, *Submission 8*, p. 3.

23 Bruck Textiles, *Submission 2*, pp 3-4.

24 Empire Rose, *Submission 4*, p. 1.

25 DIISR, *Consultation Paper*, September 2008, p. 9.

3.30 However, the Consultation Paper also states that:

It is open to have different eligible activities under BIC than those of the TCF Post-2005 (SIP) Scheme by...adding eligible activities drawn from the TCF Post-2005 (SIP) Scheme's Type 1 grants in relation to capital investment expenditure (for example, including upgrading existing TCF plant or equipment in relation to environmental requirements as eligible activity for an innovation grant)...²⁶

3.31 Bruck Textiles argue that if capital expenditure is excluded from the Clothing and Household Textile (BIC) scheme, the maximum headline subsidy rate should not reduce to 50 per cent from the 80 per cent that was available under the TCF Post-2005 (SIP) scheme.²⁷

3.32 The Australian Industry Group notes that in order to ensure the Clothing and Household Textile (BIC) scheme achieves its objective of fostering of 'a sustainable and internationally competitive manufacturing industry and design industry for clothing and household textiles in Australia', the eligibility criteria for the scheme will have to be 'carefully developed'.²⁸

Committee comment

3.33 The committee considers that Government should continue to consult with industry on the details of the Clothing and Household Textile (BIC) scheme, taking industry comment on the draft guidelines into account when formulating the final guidelines for the scheme.

3.34 Given the matters raised in the evidence received, the committee considers that the eligibility criteria established in the Clothing and Household Textile (BIC) scheme must be clear, must facilitate the achievement of the scheme's objective, and must be carefully formulated in consultation with industry.

3.35 The committee notes that the bill will facilitate the continuation of assistance provided for under the TCF Post-2005 (SIP) scheme, and will operate in much the same way as the previous scheme.

Recommendation 1

3.36 The committee recommends that the Senate pass the bill.

Senator Annette Hurley
Chair

26 DIISR, *Consultation Paper*, September 2008, p. 10.

27 Bruck Textiles, *Submission 2*, p. 3.

28 Australian Industry Group, *Submission 3*, p. 1.

