

The Senate

Economics
Legislation Committee

Textile, Clothing and Footwear Strategic
Investment Program Amendment (Building
Innovative Capability) Bill 2009 [Provisions]

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Senate Economics Legislation Committee

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Ms Meredith Bond, Executive Assistant
Mr Joshua See, Executive Assistant

PO Box 6100

Parliament House

Canberra ACT 2600

Ph: 02 6277 3540

Fax: 02 6277 5719

E-mail: economics.sen@aph.gov.au

Internet: http://www.aph.gov.au/senate/committee/economics_ctte/index.htm

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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.'¹

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.

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 2000.²

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.³

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.⁴

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.⁵

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.⁶

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.⁷

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.⁸

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.⁹

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.¹⁰

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.¹¹

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.'¹²

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.¹³

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 2010.¹⁴

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.

Chapter 2

The Bill

Purpose of the bill

2.1 The Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009 amends the *Textile, Clothing and Footwear Strategic Investment Program Scheme Act 1999* which provides for financial assistance to the Textile, Clothing and Footwear (TCF) industries.

2.2 The key amendments the bill makes to the Act are to:

- provide the legislative framework for the creation of the new Clothing and Household Textile (Building Innovative Capability (BIC)) scheme (the details of the scheme will be established by legislative instrument);
- cease funding for the Textile, Clothing and Footwear Post-2005 (Strategic Investment Program) scheme after 2010-11, as it will be replaced by the newly established Clothing and Household Textile (BIC) scheme in the 2010-11 to 2014-15 income years;
- provide that under both schemes, particular decisions by the Secretary relating to the application of caps, expenditure thresholds and the modulation factor may be exempt from merits review;
- provide a standing appropriation to fund the Clothing and Household Textile (BIC) scheme; and
- repeal the Parts of the Act relating to the original Textile, Clothing and Footwear Strategic Investment Program Scheme and the Regional Assistance Program, as these programs no longer operate.¹

2.3 The Clothing and Household Textile (BIC) scheme will provide grants to designers and manufacturers of clothing and household textiles in Australia who invest in innovation, to achieve its objective:

...to foster the development of a sustainable and internationally competitive manufacturing industry and design industry for clothing and household textiles in Australia by providing incentives which will promote innovation.²

1 Explanatory Memorandum (EM), *Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009*, pp 2-3.

2 EM, p. 2.

Provisions of the bill

2.4 The main provisions of the bill are discussed below.³ Detail on the consequential amendments to the Act can be found in the Explanatory Memorandum (EM) to the bill.

Repeal of redundant programs

2.5 Item 13 repeals Parts 2 and 3 of the Act as they are spent provisions. Part 2 relates to the Textile, Clothing and Footwear Strategic Investment Program Scheme (TCF (SIP) scheme) under which grants are no longer payable. Part 3 provides for the supplementation of the Regional Assistance Program, which has now ceased.

2.6 Item 47 inserts a savings provision which preserves the recovery of scheme debt provisions and offence provisions that relate to the TCF (SIP) scheme despite the repeal of Parts 2 and 3.

Amendments to the TCF Post-2005 (SIP) scheme

Grants

2.7 Items 18-20, 22, 24 and 26 have the effect of reducing the total cap on the amount of grants under the TCF Post-2005 (SIP) scheme from \$575 million to \$487.5 million and limiting the income years in which grants can be made under the scheme to the 2005-06 to 2009-10 income years.

2.8 Under the TCF Post-2005 (SIP) scheme, the total of grants paid for the 2005-06 to 2009-10 income years was capped at \$487.5 million, with an additional \$87.5 million provided for the 2010-11 to 2014-15 income years, therefore the amount of funding available until 2009-10 has not changed.

Review of decisions

2.9 Item 29 inserts a new subsection 37X(2A) which provides that the TCF Post-2005 (SIP) scheme may specify that certain decisions made by the Secretary will be exempt from review.

2.10 Item 32 inserts an identical provision for the operation of the Clothing and Household Textile (BIC) scheme in subsection 37ZZF(3).

2.11 While the types of decisions which are to be exempt from review are not described in the new subsection 37X(2A), the EM details that the decisions which may be exempt from review are those which arise from the application of caps, expenditure thresholds or the modulation factor, to:

3 The information in this part of the chapter is taken largely from the Explanatory Memorandum to the bill. See: EM, *Textile, Clothing and Footwear Strategic Investment Program Amendment (Building Innovative Capability) Bill 2009*.

- the entitlement to be paid a grant, or the amount of a grant; and
- the eligibility for an advance of a grant, or the amount of an advance.

2.12 The particular caps, expenditure thresholds and the modulation factor which may apply to grants or advances are described in detail as follows:

- the prescribed caps on the maximum payment rates for grants and advances on account of grants;
- the prescribed sales-based caps for grants (which are based on a percentage of revenue or investment amounts);
- the prescribed expenditure thresholds (which must be exceeded before grants and advances on account of grants can be paid); and
- the modulation factor (which ensures that the total of grants (including advances on account of grants) does not exceed the expenditure limit on the scheme).⁴

2.13 The EM explains that if decisions of the Secretary relating to the application of caps, expenditure thresholds or the modulation factor were subject to review, it is possible that the operation of the scheme would be affected:

For example, the amounts of grants payable in a financial year are determined late in the year once all claims for grants have been made. If the total of the claims exceeds the annual limit on payments, each entity's grant amount is adjusted by the modulation factor to ensure that the total payment limit is not exceeded. The modulation factor is worked out in accordance with a prescribed formula and must be applied to each entity's grant eligibility amount. Review of the Secretary's decision on one entity's modulated grant amount arising out of the application of the modulation factor would affect the payment of grants to all other entities (which is required in early June) as all payments would have to be delayed until the review process is completed in order to ration the available funds equitably. For equity reasons, the same modulation factor in a particular program year is applied to each entity's grant eligibility amount.⁵

2.14 The EM notes that as the details of the TCF Post-2005 (SIP) scheme are prescribed in the legislative instrument to allow some flexibility to adjust the operating parameters (such as caps and thresholds) in response to new circumstances, it is appropriate that the decisions that are exempt from merits review also be prescribed in the legislative instrument.

2.15 The EM further states that scheme participants are aware of the lack of review for certain decisions on grants and advances, and are used to only looking at the legislative instrument for the detail of the scheme.

4 EM, p. 6.

5 EM, p. 6.

Establishment of the Clothing and Household Textile (BIC) scheme

2.16 Item 32 inserts a new Part 3C, which provides the legislative framework for the establishment of the Clothing and Household Textile (BIC) scheme. Part 3C largely replicates Part 3A which provides for the formulation of the TCF Post-2005 (SIP) scheme.

Features of the scheme

2.17 The key features of the Clothing and Household Textile (BIC) scheme established under Part 3C are:

- Grants will be made in connection with the design and manufacture, in Australia, of eligible clothing and household textile products.
- The total of grants payable under the scheme is capped at \$112.5 million (section 37ZN).
- One type of grant will be provided – innovation grants in respect of clothing/finished textile expenditure.
- Grants will be provided for expenditure incurred in the 2010-11 to 2014-15 income years (section 37ZR(2)(b)).
- Grants will be paid in arrears.
- Entities wishing to obtain grants under the scheme may be required to register and to submit strategic business plans and accounts.

The legislative instrument

2.18 Under section 37ZM, the Minister is empowered to formulate the scheme by a legislative instrument, which may include the following matters:

- registration requirements for the scheme;
- consequences for not complying with these requirements;
- requirements to provide strategic business plans and accounts;
- provision for the payment of conditional innovation grants;
- advances on account of grants that may become payable;
- the review of decisions of the Secretary (see paragraphs 2.9-2.15);
- that grants and advances are inalienable;
- conferring administrative powers on the Secretary;
- the making of claims for innovation grants;
- the times within which claims for innovation grants are to be made;
- requiring that a claim for an innovation grant made by an entity ascertained in accordance with the scheme be accompanied by an audited statement relating to specified activities;

- requiring that a claim for an innovation grant made by an entity ascertained in accordance with the scheme be accompanied by an unaudited statement relating to specified activities;
- requiring that a claim for an innovation grant be accompanied by such a fee as is ascertained in accordance with the scheme;
- the assessment of claims for innovation grants;
- the apportionment of expenditure;
- the adjustment of eligibility for innovation grants in relation to the transfer of the whole or a part of a business, including (but not limited to):
 - treating the transferee as if the transferee had incurred particular expenditure, had derived particular revenue and had done particular acts or things; and
 - treating the transferor as if the transferor had not incurred particular expenditure, had not derived particular revenue and had not done particular acts or things;
- the times when innovation grants become payable; and
- matters of a transitional nature (including any saving or application provisions) arising out of the transition from the TCF Post-2005 (SIP) scheme to the Clothing and Household Textile (BIC) scheme.

Provision of a standing appropriation

2.19 Section 37ZO provides that innovation grants will be paid out of the Consolidated Revenue Fund.

2.20 The EM explains that:

A standing appropriation is warranted for the Clothing and Household Textile (BIC) scheme in order to provide participating entities with a degree of certainty that innovation grants will be funded in future years of the scheme. This is important because participating entities incur clothing/finished textile expenditure in one year and then wait until the following year before being able to claim innovation grants to which they are entitled to be paid.⁶

Analysis of the bill

2.21 The Clothing and Household Textile (BIC) scheme replaces the phased down section of the TCF Post-2005 (SIP) scheme, which was to provide \$87.5 million of grants for the 2010-11 to 2014-15 income years.

6 EM, p. 9.

2.22 The Clothing and Household Textile (BIC) scheme will provide \$112.5 million in grants over the same time period. It provides a more targeted grants program than the TCF Post-2005 (SIP) scheme, providing innovation grants to a very specific section of the TCF industries.

2.23 As the Clothing and Household Textile (BIC) scheme only provides grants to 'eligible clothing and household textile products' some products which were eligible for funding under the TCF Post-2005 (SIP) scheme will not be able to access funding under the Clothing and Household Textile (BIC) scheme.

2.24 Other than the key differences observed in the table below, the two schemes operate in a similar manner:

TCF Post-2005 (SIP) scheme	Clothing and Household Textile (BIC) scheme
Provided grants in connection with the design and manufacture, in Australia, of <i>eligible TCF products</i> .	Provides grants in connection with the design and manufacture, in Australia, of <i>eligible clothing and household textile products</i> .
The total of grants paid under the scheme for the income years 2010-11 to 2014-15 was <i>not to exceed \$87.5 million</i> .	The total of grants paid under the scheme for the income years 2010-11 to 2014-15 is <i>not to exceed \$112.5 million</i> .
Provided <i>two types of grants</i> : <ul style="list-style-type: none"> • Type 1 – for capital investment expenditure • Type 2 – for research and development expenditure 	Provides <i>one type of grant</i> - innovation grants in respect of clothing/finished textile expenditure.

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.

APPENDIX 1

Submissions Received

Submission Number	Submitter
1	Roy Green
2	Bruck Textiles
3	Australian Industry Group
4	Empire Rose Studio
5	CSIRO
6	Australian Council of Wool Exporters and Processors
7	Technical Textiles and Nonwoven Association
8	Carpet Institute of Australia Ltd
9	Tasmanian Government

