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Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004

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Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004

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Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004

Date Introduced: 18 February 2004

House: House of Representatives

Portfolio: Industry, Tourism and Resources

Commencement: On Royal Assent

Purpose

The Bill amends the *Textile, Clothing and Footwear Strategic Investment Program Act 1999* to provide an alternative cap on certain grants under the Textile, Clothing and Footwear (TCF) Strategic Investment Program in respect of TCF value-adding for the 2003–04 and 2004–05 income years.

Background

In November 2003, the Government announced a $747 million assistance package for the TCF industries (see Ministerial Press Release 27 November 2003).[1] The announcement followed the release of the Productivity Commission's final report for the *Review of TCF Assistance* (completed in July 2003). As part of the assistance package, the Government announced tariff reductions and the extension of the current TCF Strategic Investment Program (SIP) Scheme beyond 2005.

The TCF SIP Scheme was introduced in 1999 to provide incentives to the TCF industries to undertake restructuring and achieve efficiency gains in the period up to 2005. The objective was to provide special assistance, for a limited period, to those sectors of the industry which had strong prospects of becoming internationally competitive at lower tariff rates after 2005.

As the Minister noted in his Second Reading Speech to the Bill, the TCF SIP Scheme is intended to improve the industry's international competitiveness and long term viability. However, for those sectors which have managed change and do not face the prospect of significant tariff reductions, there is not the same need for special assistance.

> The purpose of the Textile, Clothing and Footwear Strategic Investment Program Amendment Bill 2004 is to provide an alternative value-adding cap for the leather and technical textile firms in the final two years of the Textile, Clothing and Footwear Strategic (TCF (SIP) Scheme).[2] This alternative cap will enable leather and technical textile firms to match the total value of their grants for plant and equipment (new and used), and research and development with a grant for value-adding for the final two income years of the Program.
>
> This initiative is a transitional measure in the implementation of the Australian Government's future assistance arrangements for the TCF industry. This new package, $747 million over the next ten years and a five-year tariff pause from 2005, will provide assistance for firms and workers in the TCF Industry, and allow time for the Industry to adjust to a lower tariff environment… A key part of this package is the $600 million Textile, Clothing and Footwear Post 2005 Strategic Investment Program (TCF Post (SIP) Scheme). This new Scheme will provide two types of grants supporting investment and innovation, and support for small TCF businesses.
>
> Leather and technical textile firms will only have access to grants for investment under the TCF Post 2005 (SIP) Scheme. This is a reflection of the Government's decision to concentrate support towards those firms facing the greatest tariff adjustment pressure. Leather and technical textile firms are not facing the same extent of restructuring pressures as other sectors of the TCF Industry, nor are they, for many of their products, facing the prospect of significant tariff reductions. This initiative will, however, assist leather and technical textile businesses in making the transition to the TCF Post 2005 (SIP) Scheme. The leather and technical textile sectors will still be able to access the Government's industry wide innovation and research and development programs beyond 2005.[3]

TCF tariffs

The process of reducing TCF tariffs began with the 1987 TCF Industry Plan (or the Button Plan, as it came to be known). A tariff reduction program was set out in the 1991 Industry Statement, which resulted in the reduction of the maximum tariff rate on TCF items to 25 per cent in 2000.

In September 1997, the Government announced a pause in the TCF tariff reduction program from July 2000 to 31 December 2004 and a further reduction to apply from 1 January 2005.

On 27 November 2003, the Government announced a five-year pause on tariff reductions from 2005 following a review of TCF tariffs by the Productivity Commission. The Government accepted the Commission's preferred tariff option to maintain all TCF tariffs at the 2005 levels until 2010, and then reduce most TCF tariffs to 5 per cent. However, tariffs on apparel and certain finished textiles, which are significantly higher than those on other TCF products, would not be reduced to 5 per cent until 2015.

ANNOUNCED SCHEDULE OF TCF TARIFF REDUCTIONS

	2000	2005	2010	2015
Clothing and finished textiles	25.0%	17.5%	10.0%	5.0%
Cotton sheeting and fabrics	15.0%	10.0%	5.0%	5.0%
Sleeping bags, table linen	10.0%	7.5%	5.0%	5.0%
Carpet	15.0%	10.0%	5.0%	5.0%
Footwear	15.0%	10.0%	5.0%	5.0%
Footwear Parts	10.0%	7.5%	5.0%	5.0%
Other (eg yarns, leather)	5.0%	5.0%	5.0%	5.0%

TCF Strategic Investment Program (SIP) Scheme

The TCF SIP Scheme is the main component of the Government's support program for the industry. Other elements of the program relate to technology development, skills training and the development of export markets.

The TCF SIP Scheme has five parts. The three largest parts provide grants for new plant and building expenditure, for research and development expenditure and for TCF value-adding.

Grants available under SIP

Specifically, there are five types of grants available:

- Type 1: grants for investment (up to 20 per cent of eligible expenditure)
- Type 2: grants for research and development, including product development (up to 45 per cent of eligible expenditure)
- Type 3: matching value-added grants
- Type 4: grants to purchase state-of-the-art second-hand plant and equipment for restructuring by firms in TCF dependent communities (up to 20 per cent of eligible expenditure), and
- Type 5: special miscellaneous grants for activities relating to restructuring initiatives in TCF dependent communities (up to 20 per cent of eligible expenditure).`

To access Type 1, 2 and 3 grants a TCF firm must have a minimum of $200 000 of eligible expenditure. Type 3 grants enable a firm to claim additional assistance linked to the value added in the income year the claim was made for a Type 1, 2 or 4 grants.

Currently Type 3 grants are capped at either 5 per cent of total eligible value added, or by the sum of Type 1, 2 and 4 grants received, whichever is the lesser. Value added grants in excess of the cap cannot be carried forward. Effectively, access to Type 3 grants means that, subject to capping arrangements, firms can receive a subsidy of **up to 40 per cent** on investment in plant and equipment, and **up to 90 per cent** for research and development expenditure.

Type 4 and 5 grants are designed to provide support to communities that are heavily dependent on TCF manufacturing and are facing restructuring.

The operation of SIP

In 2002–03, $130 million was paid through the SIP. Around 60 per cent of SIP payments were for Types 1 and 2 grants. Type 3 grants account for 38 per cent of payments while Types 4 and 5 grants account for less than one per cent.

Grants under the SIP are paid in arrears on the basis of demonstrated performance. In line with WTO rules, the overall level of assistance to an individual firm is limited to 5 per cent of its total sales of eligible products in the preceding twelve months.

Funding for the current SIP Scheme is capped at $700 million over five years. This cap includes any supplementation to the Regional Assistance Program. The SIP applies to the financial years from 2000–01 to 2004–05, with two 'pre-program' years, 1998–99 and 1999–2000.

The overall cost to revenue of the TCF SIP Scheme is equivalent to the aggregate cost of the Import Credit Scheme had it continued past its termination date of 1 July 2000 up to 30 June 2005.[4]

As announced by the Government in November 2003, the SIP will be extended beyond 2005 and renamed the TCF Post 2005 (SIP) Scheme.

Overview of the leather and technical textile sectors

The leather and technical (or industrial) textile sectors have been less affected by the tariff reductions than other sectors in the industry and have responded positively under the SIP. Both sectors have performed strongly and have developed their export capability.

The leather industry in Australia employs more than 3000 people and is a major regional employer, with an annual turnover in excess of $730 million. The industry is the best performing sector in the TCF industry and has experienced the smallest reduction in TCF employment (a fall of only 3 per cent during in the 1990's, compared to 30 per cent for the TCF industry overall). The industry is also a major exporter, accounting for 35 per cent of TCF exports. In its follow-up submission to the *Review of TCF Assistance* by the Productivity Commission, the Australian Association of Leather Industries, which represents the major finished leather manufacturers in Australia, stated:

> The leather industry's export performance and the investment planned over the remainder of the SIP scheme indicates that new leather capacity is replacing outdated capabilities designed to satisfy a largely domestic manufacturing base of client.
>
> The SIP scheme has been fundamental to the development of the leather industry... These developments, which commenced with the establishment of the import credit scheme in 1991, are starting to show significant benefits for the economy as a whole and with the appropriate nurturing a significant world class industry will develop.[5]

The technical textile sector is also a large employer employing an estimated 10 000 people in Australia and has an annual turnover of $1.7 billion. The industry is dependent on other manufacturing sectors, such as the building and construction, and automotive industries but has invested heavily in capital expenditure and product development. The industry has also experienced a healthy growth in exports.

> The Australian technical & nonwoven textile industry is highly capital intensive, requiring large investments in product development and production facilities and is comparable to the global industry. Once seen as colourless, the sector has emerged united as a viable and vibrant industry. Indeed, over the past decade, the industry has made substantial improvements and institutional and attitudinal changes. The adoption and refinement of lean manufacturing techniques has delivered operating efficiencies and lower inventory costs. There has been significant investment to upgrade plant and equipment, and in process and product development in line with global trends.
>
> One of the distinguishing features of the evolving technical and nonwoven textiles industry is the emergence of traditional textiles and fibre producers into technical textiles. Hence technical textiles provide an important avenue for structural adjustment within the textiles and broader TCF industries. The Strategic Investment Program (SIP) is also progressively aiding the Australian technical and nonwoven textile companies to prepare themselves for the post 2005 period.[6]

Main Provisions

Policy objectives

Item 2 of **Schedule 1** inserts a new section 14A setting out the objectives for the alternative cap for certain grants in respect of TCF value-adding under the TCF (SIP) Scheme. Total grants for the TCF value-adding (Type 3 grants) made to leather or technical textile firms in the 2003–04 or 2004–05 income years are equivalent to the sum of the total grants for new and second-hand plant and building expenditure (Type 1 grants) and TCF research and development expenditure (Type 2 grants). The total of value-adding grants paid will not exceed $3.9 million.

Endnotes

1 Media Release issued by Industry Minister Ian MacFarlane, "Future Assistance Arrangements for the TCF Industry", 27 November 2003, 03/255.

2 Technical textiles refer to industrial textiles and comprise special fibres and yarns such as stainless steel, nickel, polyester, nylon, silica, glass fabric, microfibre and glass fabric. These textiles can be value added into products ranging from hygiene products, protective clothing, medical clothing, tents, shoes and home textiles.

3 *House Hansard*, 18 February 2004, p. 25035.

4 The Import Credit Scheme provided import duty concessions to firms based on their export performance. However, there was some doubt as to whether the scheme was WTO consistent.

5 Submission No 161 from the Australia Association of Leather Industries, 18 June 2003. For a detailed industry overview see Submission No 32 from the Australia Association of Leather Industries to the Productivity Commission Inquiry into the TCFL Industries with Respect to Post 2005 Industry Assistance Measures.

6 Submission No 68 from the Technical Textile and Nonwoven Association to the Productivity Commission Inquiry into Post 2005 Assistance Arrangements for the TCF Industry Sector.