

# Response to the Green Report - 'Building Innovative Capability' recommendations – January 2009

## **TCF Assistance Options Moving Forward**

OPTION 1 (PREFERRED) – Reject the substantive Green report recommendations on the obvious grounds that they have been superseded by the global financial crisis (GFC) and accumulating economic recession. Instead, Government should elect to continue the TCF Strategic Investment Program (SIP) as it stands today, for its full term, at current funding levels of \$97.5m per year, even if modulation occurs in subsequent years. This is the most fiscally responsible course, and will avoid major disruptions and cost to industry in having to gear up for a new Scheme. No single company is likely to be better off under the Green Report package, as compared to where they stand under the current SIP scheme. Generally-available economic development measures relevant to TCF firms might then be more appropriately considered by Government in parallel with assessments of the medium term outlook for the global economy.

OPTION 2 – Keep SIP going for the Clothing sector as per Option 1, scrap the recommended TCF Innovation Capability Program (ICP) altogether, but allow the industrial/capital intensive sectors to continue to claim SIP for Type 1 grants only. This approach is similar to the existing post-2005 SIP scheme, whereby Technical textiles and non-woven firms could only claim Type 1 grants. In addition, the industrials would be eligible to choose to claim R&D expenditures under the Cutler-recommended R&D concession reforms – meaning they could cash out their R&D expenditure, and receive up to a 50% refundable tax credit.

OPTION 3 – Keep SIP going for the Clothing and finished textile sectors at \$17.5m funding until the tariff drops to 5%, as is currently legislated to occur in alignment with introduction of the recommended ICP scheme, which would only be accessible by 'other elements' of the TCF industries such as Carpet, footwear and textiles. This way, a broader range of companies would likely receive funding for innovation initiatives, thus reducing the risk to government (and the wider economy) of mass corporate failures should investment strategies (and investment returns) be not ultimately realised. Currently, 360 firms receive funding under SIP. Under the proposed 'dual program' strategy, well over two-thirds of these firms would likely continue to receive innovation funding assistance. If the 5% of sales-based SIP grant is taken away from the Clothing sector, it is likely many companies will not survive the approaching recession. This is because, for a majority of firms, profit realised in good economic times is predominantly equivalent to the size of SIP grants as they currently stand. It is the Clothing and finished textiles sectors that require ongoing structural adjustment assistance. If SIP is continued, there is no need for a separate TCF ICP if the Government implements, in parallel, the Cutler National Innovation Strategy reforms to research and development concessions. If, at the end of the day, the TCF ICP is considered absolutely necessary, it would be more useful for the program to be structured as a business transformation-only program.

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