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‘Innovation’ push for new Labor TCF policy

The election of the Rudd Labor government on 24 November 2007 has brought with it an important change in philosophy in terms of the role and focus of industry policy, including a possible change to the assistance framework and timings for tariff adjustments put into place by the former Howard government.

Work on framing up of the ‘Terms of Reference’ for Labor’s promised review of the current TCF Plan has now begun in Canberra, and TCF Services intends on behalf of our clients to take an active role in the review’s proceedings in regard to possible changes to assistance arrangements, especially the TCF Strategic Investment Program.

As a first step, this newsletter is intended to bring TCF Services’ clients up to date on the current state of play in relation to TCF policy development, and the unfolding assistance review outlook. So please don’t hesitate to ring me (or email: gerry@tcf.net.au) if you have any questions in regard to the issues discussed below.

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By confirming 29 November 2007 that the former Shadow Minister for Industry, Innovation, Science & Research (IIS&R), Senator Kim Carr, would assume the role of Minister for a portfolio of the same name in the 1st Rudd Labor Government, Prime Minister Rudd has ensured some continuity in high level decision making relating to TCF policy, as well as minimal delay in starting the roll-out of Labor’s new industry agenda.

Although the ALP did not release a formal ‘Industry Policy’ platform during the election campaign, a National Manufacturing Forum (NMF) ‘Strategic Action Plan for Australian Industry’ - released in October 2006 - was frequently cited by officials as a key ALP policy reference document, and pointer to the course of policy upon the assumption of power.

Subsequent to the allocation of Ministries by Kevin Rudd, Senator Carr is being supported in his IIS&R portfolio by Dr Craig Emerson MP as new Minister for Small Business, Independent Contractors and the Service Economy - who will also speak for Senator Carr on IIS&R issues in the House of Representatives.

Hand-picked ‘panel’ for industry reviews

Running through the election campaign, Kevin Rudd on several occasions espoused a view that, in government, there would be no reversion to high tariff/import quota based protectionism for Australian industry, although he did commit to a substantive review of the Textiles, Clothing & Footwear (TCF) Industry.

The subject review is to run predominantly over the course of 2008, however, the funding of any substantive decisions will most likely fall into early-2009 Government deliberations on framing up the 2009/2010 Federal Budget. Senator Carr had in turn indicated Labor might also look at deferring the current scale of post-2010 tariff reductions. The subject TCF review will be different to those that preceded it during the Howard era.

First, unlike the 2003 assistance inquiry, it won't be driven by Terms of Reference generated by the Treasury, nor will it be progressed by the government's economically 'dry' Productivity Commission.

Instead, Senator Carr has in mind the appointment of an independent panel of experts hand-picked by the government, and guided by Carr himself on new thinking in regard to where best government resources might be focused to stimulate industry and economic growth. As is usual with 'expert' panels, Secretariat support for the review is likely to come from the IIS&R Department.

Industry policy review more than just TCF

In another change of precedent, the 2008 TCF review is not likely to be the sole focus of influence in terms of policy prescriptions moving forward past 2010. Senator Carr believes that in order for local industry to survive in a low-tariff environment against the likes of China and India, innovators supporting TCF (and all other) Australian companies - including those providing 'services' - will need to become far more innovative from the perspective of focusing on customer needs.

Insights into this approach were published in April via a 10-point 'New Directions for Innovation, Competitiveness & Productivity' paper, which flagged the Party's intention to push ahead in government with a review of Australia's innovation and research priorities via an initial Green, and subsequent White Paper.

This approach has since evolved into Labor instead proposing to run a year long mega-inquiry into the required steps and changes needed to develop a 'National Innovation System' that harmonises Federal and State assistance programs, in order to eliminate duplication and wasted resources. Outputs of this exercise are then expected to be fed into the TCF and Automotive industry reviews as they run in parallel through to the conclusion of 2008.

The more substantive 'innovation' review is expected to draw in both the current Research & Development Tax Concession, as well as the Cooperative Research Centres (CRC) program, for examination. Guidance from Senator Carr will similarly assure the review 'panel' clearly understands Canberra's belief that National Government has a clear role in supporting the growth of scientific effort, along with associated infrastructure needed to generate new innovative ideas and new technologies, through to the development of products and services that leverage off the resultant intellectual property base.

For example, in several instances of this transition from the laboratory to consumer, Senator Carr has referred to the CSIRO's pilot-scale textile prototype processing facility, as well as the importance of new bio-technologies as a tool for innovation and industry development - especially in transforming wool and other crop-based fibres. Labor's TCF review will also look at the industry's current major assistance mechanism - the TCF Strategic Investment Program (SIP) - from the perspective of gaining an assessment as to its efficiency (ie: compared to other measures) in driving the desired innovation outcome.

Senator Carr similarly expects the review panel will tackle issues such as the need to ensure the survival of manufacturing beyond the current mining boom, as well as climate change and the global shift to 'green' manufacturing (all the more important now in the aftermath of Rudd's decision to sign the Kyoto Agreement).

Innovation and education

Labor also hosted a National Manufacturing Roundtable in Parliament House on 10 September 2007 (chaired by Bob Herbert - formerly CEO of the Australian Industry Group, and Chair of the National Manufacturing Forum).

The Roundtable was supported by a background paper ('Fresh Ideas for Australian Industry'), although its content was more attuned to the pending election campaign in providing an overview of the current state of Australian manufacturing, key issues and suggested policy options, and details of Labor's existing policies as they were seen to affect the manufacturing sector.

Senator Carr also holds the view that innovation and education go hand in hand, and in the context of Kevin Rudd's campaign undertakings to roll out an education 'revolution', Carr had noted the importance of a new education policy for Australian industry. At a 'Progressive Business' breakfast briefing on 19 December 2007, the Senator highlighted the close link between his own portfolio and that of the new Deputy Prime Minister, Julia Gillard, namely Education, Employment

Workplace Relations & Social Inclusion. In short, Carr's argument is that a thriving economy requires a highly skilled and educated workforce, with the new Government being of the opinion that not enough attention and thought was given by previous Federal administrations to addressing skill shortages in high level research and research training.

Whatever corrective measures subsequently emerge, there is a view industry is a key beneficiary of such 'knowledge' investment (ie: there is a wealth transfer from taxpayers) over the medium to longer term. Labor justifies such financial assistance to industry if it helps to overcome persistent issues of Australian competitiveness, especially, shifting business philosophy to competing on a mix of 'value for money'-based comparisons compared to competing solely on price.

Reflecting the above, and via several other speeches made during the election campaign, Senator Carr had accordingly worked hard at meetings with industry to move the policy debate beyond more traditional singular-focus appeals for additional (or 'frozen') tariffs, and ever-increasing (in terms of direct 'cost' to government) investment subsidies.

One path to this is Labor's desire to end State-based fragmentation of industry assistance programs. An earlier study had revealed the existence of 169 separate Commonwealth and State Programs relating to industry, most of which were said to have proliferated during the Howard era as a result of what Carr blames on the lack of a broad National Industry Strategy.

Now in Federal government (and with Labor governments firmly established in each of the States and Territories), Senator Carr sees an opportunity to better coordinate respective government industry programs by working more closely with individual States and their research institutions to help build a new overarching industry strategy on the three pillars of: innovation, industry and science & research.

Departmental lobotomy now in train

In parallel with the overarching 'innovation' review, Senator Carr will overhaul 'culture' within the former Department of Industry, Tourism & Resources (ITR), with a vision to a high powered combination of the three innovation pillars to drive new industry investment.

As a first step, exorcising 'Resources' out of the industry Departmental mix has immediately removed much of the economic 'dryness' which Labor has argued over the Howard era saw an accumulating lack of enthusiasm for any new interventionist industry policy measures.

Coming from the Left of the Party, Carr has a natural keenness to reintroduce more focused industry policy, yet he still has to get new initiatives past Kevin Rudd's declared policy conservatism, as well as secure funding at a time when the Treasurer, Wayne Swan, is trying to find \$10+ billion of savings across the Federal Budget. Hence, the high probability of any new initiatives coming out of the TCF review being passed over for funding until the 2009/2010 financial year.

First up in terms of (low-cost) 2008 initiatives will likely be an audit of the capacity of Australian businesses, universities and research centres (ie: collectively) to identify opportunities to concentrate research. Such collaboration is intended to evolve via the creation of manufacturing centres where researchers can more productively work together to stimulate creative environments to drive new ideas and product development.

Another favoured Labor industry policy measure with a familiar ring relates to the proposed creation of a number of Industry Innovation Councils (with tripartite representation – government, industry and unions), which would assume responsibility for developing and implementing national industry innovation strategies emerging from individual studies and policy reviews.

TCF industry payments made in 2006/07

The 2006/07 DITR Annual Report indicated that in the subject financial year, 375 'customers' (principally firms) were assisted with payments of \$96.15m under the post-2005 TCF-SIP, out of a total appropriation of \$103.2 million. The TCF Corporate Wear register saw 1,291 customers receiving concessions valued at \$56.4m, whilst utilisation of the TCF Expanded Overseas Assembly Provisions saw 18 firms receive concessions valued at \$3.22m.

Similarly, the TCF Product Diversification Scheme saw 33 firms receive concessions valued at \$5 million, whilst the TCF Small Business Program delivered 58 payments to firms valued at \$2.16m. Adding this up, TCF assistance is already costing the government (directly and indirectly) upwards

of \$150m a year, so it will be interesting to see whether the three major pending reviews (ie: Innovation, TCF and Automotive) result in a real increase in the level of funds being delivered to TCF activities, or a shuffling of existing monies to fund 'fresh ideas' programs.

With the ALP out of Federal power for over a decade, it is reasonable to expect a new government would not act precipitately to change long running programs without first undertaking some substantive review of each program's continued currency - in terms of when the subject measures were first proposed - and their continuing relevance in a rapidly changed international economy now, and moving forward into the future.

Support for a new TCF review is thus welcome, on the proviso the exercise is not just simply aimed at identifying 'savings' for redirection into satisfying other election promises.

Coalition efforts for industry

In its 11 years at the helm of Federal government, the Coalition introduced many initiatives to address industry competitiveness problems, as well as debate the adequacy of tariffs within the context of discussion that industry policy measures needed to be more sophisticated.

Its last major activity in this area was the 1 May 2007 tabling of a \$1.4 billion Industry Statement that, similar to Labor's new industry policy initiatives, also focused on establishing better relations between researchers and businesses through an Intermediary Access Program (IAP).

The IAP was particularly designed to help small businesses improve their relations with public researchers and acquire new ideas and technology. Labor's themed response during the election campaign was to pitch an initiative called 'Enterprise Connect'.

Another key May 2007 Industry Statement element was the Commercial Ready Plus Program, designed to create a support mechanism for new approaches coming out of innovative business and public research. Five hundred million dollars was also allocated to extend eligibility for the 175% Premium R&D Tax Concession, although Senator Carr's response to this announcement was to observe that successive administrative changes made to the program during the Howard era had made the scheme too complex for many firms to access meaningful benefits.

Multi-lateral twist in trade policy agenda

The Howard era witnessed a major shift away from multi-lateral trade liberalisation initiatives - such as those sponsored by the World Trade Organisation (WTO) - in favour of the conclusion (or upgrading) of Free Trade Arrangements (FTAs) with: New Zealand (which adopted a new 'rules of origin' schedule from 1 January 2007); Singapore; Thailand and the United States.

Labor has indicated it would prefer a return of preference towards negotiating multi-lateral arrangements (including work to help conclude the long-delayed 'Doha' round), although it will continue to advance FTA negotiations commenced during the Howard era, and including: the Association of Southeast Asian Nations (ASEAN) with New Zealand (ASEAN-NZ FTA); the Gulf Cooperation Council; Chile; Japan; China and Malaysia.

Major activity by DITR was also taken over the last financial year to amend tariff and rules of origin schedules of existing FTAs to reflect changes to the International Convention on the Harmonised Commodity Description and Coding System (HS2007), with the Australian Customs Service implementing the new HS2007 tariff schedule from 1 January 2007.

In a significant break of arrangements regarding the allocation of Ministries within the Coalition partners (the Liberals & National Party), former Liberal Minister for Industry, Tourism & Resources, Ian Macfarlane MP, was confirmed 6 December 2007 as the new Opposition Spokesman for Trade. Senator Eric Abetz is shadowing Kim Carr in Industry, Innovation, Science & Research.

The Textiles, Clothing & Footwear Industry Advisor © 2008 [Business Communications Group] brings you the latest facts, analysis and contacts regarding Australia's TCF industries and related Government assistance and support programs.

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