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Shaping up for the post-2005 Inquiry

Since our last newsletter, a Review Team tasked to the TCF Policy Unit of the Department of Industry, Tourism and Resources (DITR) has been looking at how the Strategic Investment Program (SIP) has performed through to June 2002, in terms of supporting the industries' achievement of long-term, and sustainable, commercial viability.

In response to this review, TCF Services has canvassed a large number of its clients to elicit their experiences with the SIP Scheme to date, and these views have been consolidated into a 40-page submission. This submission has been lodged not only with the Review Team itself, but also with higher DITR management, as well as the office of Industry Minister, Ian Macfarlane.

As we report below, some changes to current SIP approaches are anticipated from the Government's consideration of the Review Team's recommendations, whilst a number of the other issues raised - considered to need longer-term attention - will be folded into the upcoming Review of post-2005 TCF&L assistance. This latter Review is expected to move into full swing over the course of 2003.

Parallel to all the above activity, work has been progressed under the sponsorship of the TCFL Forum, an off-shoot of recommendations from the TCF&L 'Action' Agenda, previously put together by DITR. With the support of Government funds, the Forum has now published a '2012 Strategic Plan', which makes some worthy points about sensible activities that could be taken to improve the longer-term stature of the combined industries.

Also, TCF Services has just moved to new offices, so new contact numbers are included at the foot of this edition. As always, if you have any queries about issues raised in the newsletter, please ring me, or Email them to: gerry@tcf.net.au.

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No Change Likely to SIP Modulation

One of the most pressing issues for attention by Industry Minister Macfarlane is the level of modulation to be applied to Round 2 SIP payments - that is, for capital investment and Type 2 expenditures made over 2001/02. This issue was last reviewed by former Industry Minister Minchin, who chose not to modulate Round 1 claims (technically, referred to a Modulation rate of 1).

The big driver in the assessment of the need to modulate is AusIndustry's perceptions of likely future SIP claims, as influenced by the figures prospective claimants submit in their forecasts when re-registering each year for the Scheme. This is where things come a little unstuck. AusIndustry, by law, has to refer to the projections. TCF companies, however, view them more flexibly. So as the commercial environment moves around, so does industry's actual investment behaviour.

As such, the forward investment bids tend to be optimistic, meaning that on the registration figures alone, AusIndustry is projecting something like $233m, when the Government has only funded $130.7m for SIP in its 2002/03 Budget. Industry sources consider the $233m to be wildly over-estimated, so AusIndustry has commissioned modelling work to come up with a more considered number, which puts it at $156m. Those closest to the industry - the consultants actually assisting with preparation of the claims - still think this to be too much, with a more likely result being in the order of $90-100m.

This latter figure is based on the passing of the first pre-Program investment boom, changes in market factors driving investment and the effect of higher interest rates, as well as a shift in SIP emphasis from Type 1 to Type 2 investments. This latter shift has some logic, in that firms will try to wreak the most in productivity and other efficiencies to maximise the return on previous investments, before they consider any new capital equipment acquisitions.

Confronted with the wide variety of advice - and fortunately a lack of faith in AusIndustry projections for a range of programs which has already got the Government into hot water - Macfarlane is expected to go with the pragmatic approach - what politician wouldn't - and announce that the Round 2 modulation factor will remain unchanged at 1. Given that grant payments to some early Round 2 claim lodgers are currently being held up, the Minister is expected to have confirmed the announcement by the time Parliament resumes on 19 August.

Subtle changes to SIP Scheme from Round 3 onwards

Subsequent to completion of the Review Team's SIP Report, the Minister is also expected to announce some subtle changes to the administration of the Scheme itself. A lead element of this relates to 'capped payments' for Type 1 grants, but curiously, not Type 2 grants. This is where firms have their claim reduced solely as a result of the application of the 5% sales cap on grant payments. The request is for amendment to the Scheme to allow that part of the grant that is denied on such grounds, to be carried forward into the next grant year.

Many in industry see this as a sensible suggestion, and unlikely to complicate Government priorities for the SIP to remain well within the WTO rules requiring firms to receive grants at no more than 5% of sales in any one year. Further, the change also helps the Scheme accommodate a view that investment cycles within industry should be made in a commercially driven time frame, not one dictated by Government Schemes. Whilst the Minister is likely to accede to the request, it does mean some more SIP money will be paid out over 2002/03, thus increasing his concern the funding pool for that year might exceed the $130.7m.

Firms should accordingly monitor, as best they can, any official statements over the course of 2002/03 in regard to SIP claims and grant payments experience. If the Scheme runs to current industry expectations, then the Round 3 modulation factor will most likely remain the same as the previous two Rounds. However, if large claims are made over the coming year, the Government will no doubt pay them, but the excess of claims will then be shifted into the next year meaning modulation in Round 3 would most certainly be brought into play.

Important issues for the Minister's consideration

Amongst the lead issues in the TCF Services submission to the Review Team was the need for Government - from a policy point of view - to have a look at how AusIndustry is administering the 'innovation test', in terms of assessing the eligibility for grant payments for firms undertaking Type 2 activities. Many consider this test has been applied too narrowly, and restricts eligible firm activities to just 'technical innovation', rather than 'whole-of-firm' (including organisational) innovation required to assure movement toward the 'long-term, sustainable and commercially-viable' paradigm, supposedly at the heart of the Government's TCF policy intent.

Whilst there are many experts and commentators on what is, or is not 'innovative', the TCF Services submission sought to relate to the Review Team a picture of the 'real-world' drivers governing the type of innovative activities TCF&L firms do undertake, and what is relevant to their current circumstances. Accordingly, if the Government chooses to endorse AusIndustry's interpretation in relation to Type 2 grants, then so be it. Having been given such direction, then firms would at least have something concrete to deal with, and would get on with it.

Alternatively, the TCF Services submission argued that the Government (and taxpaying community) would get better value out of the Minister electing to give AusIndustry some improved 'guidance' about how to go about administering what is a very complex element of the Scheme. Clearly, there are two benchmarks to be considered. The first involves bringing the majority of TCF&L firms - in terms of sustainable, commercially viable activities - up to a 'relative equivalence' with other Australian industries already undertaking their affairs in a low Government assistance environment.

The second benchmark - focusing more on the 2010 end-state - needs to channel SIP support to those activities that would reasonably assure TCF&L industry survivability at global levels of industry competitiveness, without embarrassingly high levels of plant closures/ unemployment - as already experienced to date at the current level of 25% Tariff/SIP Scheme support. From the point of view of a number of its clients, TCF Services saw activities by firms at either one (or both) benchmarks at any time over the life of the Scheme should be accepted as eligible for the receipt of SIP benefits.

The acceptance of the Minister of such views would, in effect, go along way in de-limiting the current restrictions on Scheme performance in terms of achieving more desirable investment, product development and process improvement outcomes. It is not that provision for these is not already made in the Scheme. However, some re-adjustment of the 'mind-set' adopted in matching broad interpretation of Scheme provisions with firm activities is required.

As such, TCF Services suggested that to enhance the achievement of Government TCF&L 'policy intent' - and in contrast to the existing provisions - the test for Type 2 should be all encompassing, reflecting the reality of globalisation influences, and focussed on 'identifying new or improved methods of adding value to a product, process or service'. Similarly, the test for Type 1 should be: 'any capital expenditure which results in a demonstrable improvement in the supply chain of the TCF&L enterprise'.

Plans, strategies and people motivations

Hand in hand with the Government's willingness to continue to support quite large (relative to other industries, bar Automotive) assistance to the TCF&L industries, is a desire to believe the industries are deserving of the assistance, and are utilising it in a wise and productive manner. Part of the Government's realisation of this desire is to see the industry united, and speaking with a common, and widely-supported voice.

Well this is not exactly where the TCF&L industries currently stand in terms of the Government's perceptions, as outlined in a recent 2012 Strategic Plan published under the auspices of the TCFL Forum. Of course, the plan was not written by the Forum. It came together as a result of a series of workshops and other interactions undertaken by Melbourne-based consultants, the Strategy Shop. However, there is a push for industry to take ownership of key directions outlined in the report, particularly in view of its interest to present a common view to next year's review of post-2005 assistance arrangements, whatever these may turn out to be.

The Strategic Plan is critical about division in the TCF&L industries, although this is not helped by the way its participants are currently classified for statistical purposes. The existing ANZSIC classification - upon which AusIndustry sometimes seeks to arbitrate SIP eligibility - comes in for some heavy criticism, with the conclusion, "it needs to be replaced by a more realistic and contemporary statistical classification."

Further, if Government is going to be able to consider future support initiatives for the industry, the Strategic Plan says it needs to be ordered more logically. As such, an exercise in redefinition needs to be undertaken. It notes, some sectors "are highly interdependent, such as footwear and leather, or knitting/spinning and clothing. Some sectors appear to have little in common with others, such as sports equipment and apparel pattern making."

Some other sectors, says the Strategic Plan, "are very profitable, and views on the appropriate way forward vary widely throughout the industry." Accepting that trying to reconcile such divergent views is a 'losing battle', the Strategic Plan suggests what should be emphasised is those issues the various TCFL sectors have in common. This is said to be, "the nature of the changes which they are encountering and to which they must respond. They also have in common some significant perception barriers, some of which have achieved the status of a myth."

TCFL not one industry, but many

Leaving aside a discussion of the 'myths' for another day, the Strategic Plan indicates that part of the Government's inability to adequately grapple with industry issues is that 'TCFL' is "an artificial entity. Greater cohesion is both possible and desirable, but the current sectoral divisions are not helpful." According to the Strategic Plan, a better approach would be "to conceptually segment the industry into channels of supply chains which each link raw materials with design, manufacturing and assembly, distribution and wholesale/retail outlets."

The proposal has some merit, and for those with enough grey hair, resembles many of the attributes of the SIP Scheme when through Type 1, Type 2 and the inclusion of Warehousing/Distribution, attempts were made to acknowledge the sense of bringing a number of related activities together in an holistic fashion, as part of a drive to address critical factors underpinning the achievement of long-term industry sustainability, and commercially-viable firms.

The Strategic Plan goes on to identify four principal supply chains, which it says “capture almost all Australian TCFL sectors (and thus provide) an appropriate customer focus and marketing perspective.” The four supply chains are:

#1 - Early Stage Processing;
#2 - Apparel/Clothing, Footwear & Accessories;
#3 - Textiles, Leather and Furnishings for Household and Commercial Premises; and
#4 - Technical and Non-woven Textiles.

In terms of a future campaign to advance the interests of these four supply chains to Government (let alone its customers and own suppliers), the TCFL Forum has been funded for another 12 months to draw out industry ‘leaders’ and appropriate Industry Associations that are each capable of working together to serve the common good.

Of course, there are some historical candidates for ‘lead’ Industry Association in one or two of these supply chain groups, and one or two who - having in recent times split away from their peak association - might have to contemplate being folded back under a common wing. Further, and if the TCFL Forum is going to have a real go at a ‘renewal agenda’ for these industries - as outlined in the 2012 Strategic Plan - there may be other groups that could usefully be brought to the table.

To advance such causes, The Strategy Shop (sponsored by the TCFL Forum), is planning to facilitate a workshop in Melbourne on 22 July to discuss wider industry adoption of the Strategic Plan, whilst a session in Sydney is planned for later in August. Inquiries should be directed to Dr Michael Henry on 03/9686 3881.

New TCF Services location and contact numbers

The Sydney office of TCF Services Pty Ltd, as well as TCF Trade Management Services Pty Ltd has been relocated - effective 24 June 2002 - to Suite 4, Level 2, 418A Elizabeth Street, Surry Hills NSW 2010. The specific location is the corner of Elizabeth and Devonshire Streets, with entrance to the building being from Devonshire Street.

Telephone contact numbers for the new office are: Tel 02 8219 4900, and Fax 02 8219 4999. The address for physical mail remains unchanged at: PO Box 141, Surry Hills NSW 2010, however, all TCF Services staff now have a new email address. This is simply the individual staff members’ ‘christian name’@tcf.net.au. For example, to email Gerry Frittmann, use: gerry@tcf.net.au.

Contact numbers for the Melbourne office of TCF Services Pty Ltd were also changed earlier in the year. The correct numbers are: Tel (03) 9379 0022 and Fax (03) 9379 0991. The address for this office is: 1/250 English Street, Essendon Airport VIC 3041

The Textiles, Clothing & Footwear Industry Advisor (C) 2002 [Co-Operative Ventures (Australia) Pty Ltd] brings you the latest facts, analysis and contacts regarding Australia’s TCF industries and related Government support programs.

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