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DELIVERING THE FUTURE

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Brave new world for Aussie clothing & textiles

Work will get underway this month in Canberra to put 'meat on the bones' of the Howard Government's 27 November 2003 decision to provide a major extension of post-2005 assistance programs for the clothing & finished textiles industry.

By choosing to freeze tariffs for a further five years, and then take until 2015 to bring the clothing rate down to 5%, the Government has signalled to Australian manufacturers they have one last gilt-edged opportunity to make the shift to an open market aided by financial assistance provided through the TCF Strategic Investment Program (SIP).

Firms looking to make the most of this opportunity will, however, be expected to work for their share of the $600 million now on offer, as post-2005 arrangements are likely to introduce a new grant eligibility filter - what the recent Productivity Commission's inquiry report termed as 'additionality'. In essence, future grant applicants will need to demonstrate they are taking business development and improvement steps they might not otherwise have taken in order to secure post-2005 benefits. Companies embracing this approach will be well rewarded.

TCF Services is Australia's largest private SIP delivery agency, and has an established track record in the preparation of SIP grant applications that yield maximum possible returns to applicants. If you are one of Australia's 3000+ clothing & textile manufacturing enterprises who is concerned about your firm's survival beyond 2010, then I would strongly encourage you to ring one of our consultants to discuss how they can help you along the track to early financial returns from active participation in the broad range of concessions applying to the TCF industries.

Please call any one of our offices listed at the foot of this page (refer back page for contact names) to inquire about the post-2005 TCF Program, or alternatively, ring me directly in Sydney or email more extensive queries to: gerry@tcf.net.au.

Gerry Frittmann
Managing Director
TCF Services Pty Ltd

TCF Services Australian Offices

Sydney
Suite 3, Level 2
418A Elizabeth St
Surry Hills NSW 2010
Tel: (02) 8219 4900
Fax: (02) 8219 4999

Melbourne
Unit 1, 250 English St
Essendon Airport Vic 3041
Tel: (03) 9379 0022
Fax: (03) 9379 0991

Canberra
Unit 7, 14 Hartigan St
Garran ACT 2607
Tel: (02) 6260 5944
Fax: (02) 6260 3977

Big 'free kick' for clothing in new SIP

Australia's clothing manufacturing and exporting industry is set to become the largest beneficiary of the 10-year extension of assistance to the textiles, clothing & footwear (TCF) industries announced by the Government at the close of 2003. This state of affairs comes about due to a decision by Canberra to switch the focus of adjustment assistance - from the combined TCF industries - to the clothing sector, given it faces the largest cuts in tariff rates over the coming decade.

In a discussion paper which is shortly to be released, the Department of Industry, Tourism and Resources (DITR) will outline further details of the Government's proposal to re-base SIP eligibility around Customs Tariff items, rather than the ANZSIC codes used for the current program. This is a welcome return to how assistance eligibility was defined in the years prior to 1996, but may also have some unexpected effects in terms of reducing eligibility for firms undertaking mixed textile/clothing activities.

Extension of the current SIP Scheme will require a new Act of Parliament, and although modelled on the current SIP regime, will nevertheless contain extensive changes from those currently applying, and including: the incorporation of 'a clear and specific objective' for the extended Scheme; the clarification of key definitions relating to 'research and development' and 'innovation'; and the general expression of the new Scheme in more simple and understandable language.

Having firmed-up the new Scheme on the back of industry comment received through to end-March, the Government will be hoping to introduce the new legislation into Federal Parliament in the next Budget session (starting 11 May), given it will be anxious to achieve Parliamentary endorsement of post-2005 TCF assistance arrangements before Canberra closes down around mid-year for the Federal election.

Tranche 1 - changes to current SIP (to 2005)

The Government's November 2003 announcements also confirmed the current TCF-SIP Scheme will run its course through to 30 June 2005, within the existing funding cap of $678m. Given recent policy announcements in terms of the more liberal interpretation of key Type 2 grant entitlement definitions - whilst at the same time reflecting on likely further firm closures within the combined TCF&L industries - full program expenditure is now unlikely to exceed $550m.

Further legislative changes are likely to be made to the current Scheme in the first half of 2004 - relating to entitlements in the final two program years (2003/04 and 2004/05) - in response to the Government's decision to reduce the level of SIP benefits that can be claimed by firms who are already assisted by tariff rates of 5% or less. The sectors principally affected by this decision are 'Technical Textiles' and 'Leather'.

Under the new (post-2005) SIP Scheme, technical textiles will be afforded reduced access to SIP benefits by only being able to claim Type 1 grants - relating to new capital investment, along with activities (a new entitlement) related to brand support (see discussion below). The Government assumes such firms - now to be forcibly shifted back to mainstream Government innovation programs such as R&D Start or R&D Tax Concessions (as are all other Australian industries assisted by tariffs of 5% or less) - are already able to withstand mounting competitive pressures to move offshore.

To ameliorate this loss of future SIP benefits, the Government proposes to amend the current TCF-SIP Act to remove the 5% value-added cap applying to Type 3 grants. If approved by Parliament, this will increase the level of support potentially available for technical textiles and leather firms in the last two years of the current Scheme. Is this a realistic expectation? Basically, to get the best value out of the remaining years of the current SIP, such firms will have to splurge on investments at a time when the mid-term outlook for the Australian dollar is moving well over 75 cents to the US dollar, thus making domestic/export competitiveness all that much harder.

Tranche 2 - new SIP Scheme for 2005 to 2010

The Government's decision to extend the current SIP beyond 2005 further requires new legislation to accommodate the decision to abolish existing Type 3 (value-added), and Type 4/5 (regional adjustment) grants. The effect of this decision is to de-couple the automatic doubling effect of Type 1 and Type 2 grants in the current Scheme.

In its place, a new five-year (simple English) SIP framework - funded to a cap of $500m of expenditure - will be raised, and will incorporate only two types of grants. Type 1 grants will continue to apply to capital expenditure, and will be rewarded initially with a subsidy of 40%. Type 2 grants will similarly apply to non-capital expenditures (as per the current Scheme), and will be initially rewarded with an innovation subsidy of 80%.

All locally producing TCF firms will be able to participate in the new (Tranche 2) SIP Scheme, excepting Technical Textiles and Leather, who (as previously noted) will only be able to claim Type 1 grants for new capital investment, and the new activity of 'brand support'.

Some further 'fine-tuning' of existing definitions of 'R&D' and 'innovation' is also expected given Productivity Commission (p133) recommendations "there would be merit in giving further consideration to whether: current limits on R&D salaries remain appropriate; collaborative R&D/ innovation by groups of firms should be eligible for assistance; and expenditure on process improvement to bring a firm up to industry best practice should be eligible for funding support."

As such, and under the new post-2005 Scheme, the Government intends to re-designate current SIP Scheme Type 2 'brand support' entitlements as Type 1 entitlements, but unlike other Type 1 entitlements, firms will not be required to capitalise expenditures. At the same time, brand support activities (yearly expenditure will be capped to $3m) will not be required to be linked to an innovative product, but will still only relate to those products sold under a registered Trademark. Over and above production related information technology (IT) for all eligible firms, clothing & finished textile firms will also be able to claim non-production IT up to a cap of $2m per annum.

Tranche 3 - curtailed SIP Scheme for 2010 to 2015

The Government's decision to redirect assistance to clothing & finished textiles - those sectors employing most of the TCF workforce and facing the greatest structural adjustment pressure from falling tariffs - is to become more pronounced past 2010 via a second extension of the new SIP Scheme, for a further five years, to 2015. Tranche 3 entitlements will only apply to clothing & finished textile firms. All other textile entities will fall back to generally available 'innovation' assistance.

Some $100m has roughly been budgeted for the 2010-2015 curtailed SIP Scheme, with subsidy rates to be developed after an internal program review (around 2007/08), in order for their declaration in an appropriate time period in the run-up to 2010. Such a review will not accommodate any issues outside of internal SIP administration, as the Government has formally notified, 'sector specific assistance will cease after that provided under the post-2005 package'.

Firms in the clothing & finished textiles sectors will further benefit from a separate Supply Chain Efficiency (SCE) program, foreseen as needed to support major capital investment which strengthens linkages between each of the two sectors. This $20m program will run for four years from 2010/11 to 2014/15, but will only be open to companies not already receiving assistance through SIP means.

The SCE program is, accordingly, a real 'last chance' initiative, and is expected to herald the rise of the 80/20 TCF company - reliant 80% on imported products, and 20% on niche/just-in-time local manufacture. Grants for SCE will be administered on a competitive basis, but again, will only be open to clothing & finished textiles companies, and related suppliers.

New programs to parallel SIP extension - SME grants and Import Credits Scheme

Running parallel to the new (and curtailed) SIP Scheme over 2005-2015, is to be a $25m competitive grants scheme, specifically focused on small enterprises unable to access SIP benefits. Egged on by the Productivity Commission to make transitional support "more accessible to small firms," the Government has decided to address small firm complaints about the difficulties they face in hurdling the $200,000 (and successive) expenditure thresholds under the current Scheme.

Initial statements from Industry Minister Macfarlane provided little guidance in terms of the structure of the new Small Firms Grant Scheme, other than its funding is to be taken out of the $600m allocated to both the new (and curtailed) SIP Schemes. Issues relating to the need to define the meaning of 'small firms', along with definition of the 'scope of activities' to be assisted are still to be worked out. Grant applications are expected to be undertaken by a small panel of 'experts', contracted to fuse their expertise with the Government's new TCF policy intent.

Manufacturers will also be afforded a $50m reincarnated Import Credits Scheme (ICS) from 2005-2015, which aims to grow their product ranges through integration with international sources of supply. Because of the competitive pressure of imports under successively falling tariffs, Australian firms - due to their higher cost structures - will have little choice but to concentrate domestic/export production on branded or otherwise differentiated products. The balance of more standardised products, across the middle to lower cost ranges, will ultimately end up being fully imported.

To assist in this supply chain internationalisation process, the new 10-year ICS will provide some moderate support (ie: benefits are to be capped at $5m per annum) to clothing & finished textile firms looking to make the shift to higher value added products, as the utilisation of credits is proposed to be limited to only those enterprises (eg: the Government has initially ruled out 'transferability' of credits, meaning they must be used against entries of finished clothing & textiles). Import credits will be earned against yearly increments in local production or value added, as compared against a rolling three-year average, probably using 2002/03 as the base year.

TCF Services - DELIVERING THE FUTURE in industry and trade advisory matters

The TCF Services group delivers strategic corporate advice, hands on delivery of Commonwealth funded industry assistance programs, and specialised tools designed to assist clients in best leveraging funding opportunities via Government industry assistance schemes.

Our corporate expertise rests with the development of innovative strategies that comply with the intent of Government programs supporting the Clothing & Textiles (TCF) and passenger motor vehicle (Automotive) sectors, which are both subject to broad-scale sectoral enhancement plans running through to 2015.

TCF Services Pty Ltd is well established as a trusted business partner and valuable facilitator of commercial transactions arising from Government intervention in both the Australian TCF and Automotive sectors, as well as wider Customs and trade-based regulation and related infrastructure governing the movement of goods and services across Australia's international borders.

CLOTHING & TEXTILES DIVISION: TCF Services' Clothing & Textiles division is focused specifically on delivery of the TCF Strategic Investment Program (SIP), a multi-million dollar scheme which commenced in 2000, and has recently been extended by the Commonwealth Government through to 2015. Full details of the benefits of these extensions are provided in this newsletter.

TCF Services consultants work hand-in-hand with clients to guide new business development and capital investment strategies that align with the emphasis of the SIP on creating companies that can sustain the long-term competitiveness of Australian-based manufacturing in an environment of falling tariff assistance.

From our offices in Sydney and Melbourne, we deliver a nation-wide consulting service that ensures client applications for SIP benefits are prepared in accordance with legislative requirements, verified against rigorous internal knowledge of eligibility criteria, and are lodged on time to yield a quickly paid subsidy outcome. ***Email Gerry Frittmann (gerry@tcf.net.au) or Graeme Moon (graeme@tcf.net.au) with any inquiries.***

AUTOMOTIVE DIVISION: TCF Services' Automotive division is focused specifically on delivery of the Automotive Competitive Investment Scheme (ACIS), a multi-million dollar program which commenced in 2000, and was extended in 2003 by the Commonwealth Government through to 2015.

ACIS provides significant subsidies for investment in new capital equipment, research and development and related services by Australia's motor vehicle industry. Eligible claimants include: motor vehicle producers, automotive component producers, automotive machine tool producers, and automotive service providers.

Our consultants specialise in the development of quarterly business plans, and prepare and lodge claims for ACIS benefits that align with the emphasis of the Scheme to create local firms that are capable of making the jump to the next level of global automotive technology which will appear in models produced from 2010.

TCF Services delivers a nation-wide client staff training and advisory service that ensures quarterly returns are prepared in accordance with legislative requirements, verified against rigorous internal knowledge of eligibility criteria, and have a high probability of yielding a quickly paid subsidy outcome. ***Email David Tonkin (david@tcf.net.au) or Peter Choma (peter@tcf.net.au) with any inquiries.***

TRADE MANAGEMENT DIVISION: TCF Services' Trade Management division supports our core TCF and Automotive clients - along with a large number of other Australian and international companies who face complex import-export regulations - with high value strategic advice and assistance.

Widespread changes to import/export regulations following the September 2001 (9-11) and October 2002 (Bali) terrorist attacks, now means firms plugged into international supply chains are turning to the expertise of firms such as the TCF Group, to yield above average returns from increasing Government intervention and rising costs in the shipment of goods internationally.

The extensive knowledge and experience of our consultants in dealing with the broad range of trade regulation and cargo facilitation processes, accordingly brings to our clients new benchmarks in the provision of commercial advice. Further, leveraged access to Government infrastructure and industry assistance programs can uncover additional value to commercial operations, thus improving internal returns on investment.

TCF Services are a lead participant in the Accredited Client Program (ACP), a Government initiative due for introduction over 2004 that will provide real savings in transaction costs for international traders willing to invest in a high degree of self-compliance with trade regulations. Our participation in ACP and other trade facilitation programs ensures TCF Services clients superior benefits from real insights into increasing Government overview of international supply chains and trading arrangements. ***Email Paul Angel (paul@tcf.net.au) with any inquiries.***

SPECIAL PROJECTS DIVISION: This Canberra-based division maintains an intimate brief on changing Government policy perspectives affecting the delivery of the TCF-SIP and ACIS-Automotive programs, along with the burgeoning quantum of border security measures now being put in place by the Commonwealth following the 9-11, Bali and other terrorist attacks.

The office's focus of work extends to monitoring and reporting on the development of broader industry-assistance and innovation policy, as well as the activities of the Department of Foreign Affairs (DFAT), and their role in negotiating multilateral (eg: WTO 'Doha' Round) and bilateral trade agreements, including the Australia-United States Free Trade Agreement (AUSFTA). Policy changes in these areas are reported to TCF Services clients through a range of monthly newsletters and bulletins, and www.tcf.net.au.

Special Projects staff also work directly with TCF Services clients in developing new industry assistance proposals, and presenting these to key government officials (ie: DITR, the Treasury, Department of Finance & Administration; Attorney-General's/Customs Department), along with members of Parliament and strategic contacts within the Howard Government. ***Email Trevor Thomas (trevor@tcf.net.au) with any inquiries.***

This Newsletter is published by **TCF SERVICES PTY LTD** [ABN 88 053 245 926],
PO Box 141, Surry Hills NSW 2010. Tel: +61 2 8219 4900/Fax: +61 2 8219 4999. Web: www.tcf.net.au