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Senate review driving future of SIP legislation

Parliament rose at the end of June having failed to conclude its consideration of legislation to effect extension of the TCF Strategic Investment Program beyond 2005. The Government is also yet to table details of the new 'Scheme' that will govern rights and entitlements under the post-2005 assistance plan announced last November.

In a tactical move, the Government also linked the post-2005 SIP Bill with another Bill to reduce TCF tariffs post-2010, prompting an Opposition response to refer the whole legislative package to the Senate Economics Committee for investigation. The outcome of this new review, currently underway, is likely to be used to drive further political debate on post-2005 assistance when Parliament returns to Canberra on 3 August.

TCF Services is continuing to monitor the development and passage of post-2005 SIP legislation. If clients have any issues or concerns with the new Scheme, please don't hesitate to ring me, or email your queries to: gerry@tcf.net.au.

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Close to six months after it announced the decision to commit \$747m to a further decade-long program of assistance to Australia's textiles and clothing industries, the Government got around to introducing into Parliament 16 June its Textiles, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 Scheme) Bill 2004, for second reading. The stated purpose of the Bill is to extend the current Strategic Investment Program (SIP) for a further 10 years, in two five-year tranches, as well as to establish a TCF Small Business Program.

Legislation not really what was promised

Contrary to the Government's original intention to progress the post-2005 SIP Scheme with a new piece of legislation, the post-2005 Bill presented to Parliament sought instead to achieve the new program by way of amendments to the current legislation, the Textile, Clothing and Footwear Strategic Investment Program Act 1999.

By taking this path, and until a consolidated Act is produced some time in 2005, any clear understanding of what is being proposed by the Government must be undertaken by reading in parallel the proposed amendments, and the existing SIP legislation.

Most notable in the proposed amendments are new sections to beef up the rights of AusIndustry (and any contractors working for AusIndustry), to achieve access to an SIP claimant's premises, and view/remove electronic information from the subject firm.

The draft legislation notes that to legally complete the post-2005 legislative package, the Minister for Industry, Science and Tourism (DIST) must also formulate a new Scheme (the TCF post-2005 SIP Scheme), which will govern the making of grants in connection with the design and manufacture, in Australia, of eligible TCF products.

Earlier in the year, officers of the Department (DIST) conducted a series of inter-State seminars for this purpose, and discussions with industry and other interested parties have been

proceeding in the background to this effect. No details of the draft Scheme have yet been released, despite earlier promises that visibility of such legislation would be achieved by early April 2004.

Grant numbers add up with initial press release

The draft legislation confirms the total of grants to be paid under the TCF post-2005 SIP Scheme must not exceed \$575m, which is consistent with the original 27 November 2003 Government announcement.

The balance of the \$747m is made up by: \$25m for a 10-year TCF Small Business Program; \$50m over 10 years for a product diversification (via the issuance of import credits) Scheme; \$20m for a supply chain efficiency program from 2010 to 2015; \$27m to extend the Expanded Overseas Assembly Provisions (EOAP) for a further five years; and \$50m for a 10-year structural adjustment program to assist both displaced workers and encourage industry restructuring.

The substantive \$575m is proposed to be paid under the TCF post-2005 SIP Scheme through only two types of grants: those in respect of TCF capital investment expenditure on new TCF plant or buildings, brand support for TCF products or non-production related information technology; and those in respect of TCF research and development expenditure.

The new Scheme will provide for the making of such grants in respect of expenditure incurred in the 2005/2006 to 2014/2015 income years. Entities wishing to obtain grants under post-2005 arrangements will still be required to register under the Scheme, and to submit strategic business plans and accounts.

Hooking in tariff reductions after 2010

Consistent with the Government's original indication that continuing reductions in TCF tariffs were an integral part of the post-2005 package, the Government has seen fit to insert into the post-2005 enabling bill a provision (by way of a Schedule), that the new Act and related Scheme - even though it may have received Royal Assent - can only come into effect after the commencement of the Customs Tariff Amendment (Textile, Clothing and Footwear post-2005 Arrangements) Act 2004.

The action to conjoin both the post-2005 SIP Scheme Bill and the post-2020 tariff cuts legislation immediately raised the ire of the Opposition Parties, who subsequently moved to refer both bills for investigation by a Senate Committee. The reference to the Senate Economics Committee was approved 22 June, and submissions are to be discussed in a public hearing, in Canberra, on 3 August.

The Terms of Reference guiding the Senate Economics Committee investigation empower it to inquire whether: the SIP bill assists small and medium-sized enterprises to access government assistance; it improves market access overseas; the phase-down of SIP funding from 2009 threatens the future of the industry and employment; it provides adequate support for high value exports; it provides adequate support for R&D activity; and it provides adequate support for production value-added activity.

Further, the Senate Economics Committee is empowered to inquire as to whether: the reduction in grant types from five to two will decrease access to grants for some TCF firms; the cut in tariffs will have an adverse affect on the industry, the economy generally, employment and sustainability of regional cities and towns; our trading partners are reducing tariffs at the same rate as Australia; and the combination of the two bills and provisions in the United States Free Trade Agreement (AUSFTA) will adversely impact on the future of the TCF industries, and on employment.

Advancing SIP grants, but not the tariff cuts

At the heart of the disagreement between the Government and the Opposition parties is the need for the post-2010 tariff cuts to be legislated at the same time as the post-2005 SIP grant payments infrastructure is approved. The Government claims that this was always the deal put to industry, and cites support for the package from leading companies and industry associations, including the TFIA (Textiles and Fashion Industries Australia) and the Carpet Institute of Australia.

The Government further says that by the time formal TCF sectoral assistance ceases in 2015, the sector will have received \$1.3 billion in direct assistance, and about \$13 billion indirectly through tariff protection. Industry Minister Macfarlane told Parliament, "it is essential to recognise that TCF tariffs cost the community up to \$1 billion a year, disproportionately affecting low-income

households. The 2.1 million Australians living in households earning less than \$301 per week spend twice as much of their income on clothing as other families. For its part, the industry is clear that firms benefit far more from direct financial support for innovation and investment, than through tariffs."

Macfarlane continued the philosophical assault saying, "tariffs do not make uncompetitive firms viable. Tariffs do not assist companies to invest or innovate. Tariffs just provide a flimsy margin of protection which can easily be erased by movements in the exchange rate. For these reasons, the government believes that TCF tariffs should be reduced to the general manufacturing rate."

The Customs Tariff Amendment legislation conjoined with the post-2005 TCF SIP Bill proposes to pause tariff reductions scheduled to take effect from 2005 for a further five years, when the majority of TCF tariffs will then be reduced to 5%, on 1 January 2010. The exceptions to this rule are clothing and finished textile articles, which will have tariffs reduced to 10% on 1 January 2010, held at this level for five years, and then reduced to 5% on 1 January 2015.

Politics now holding up post-2005 SIP delivery

The Opposition parties responded to the Government's proposals with lengthy detail of representations made to them by firms opposed to various elements of the new Scheme. Such objections, in the main, related to the long-term impact of further reductions in tariffs on the sustainability of the complainant enterprises.

The result is a Labor decision to adopt a position that when Parliamentary debate resumes in August, it will move to de-couple the two bills - the post-2005 SIP Bill, and the accompanying Customs Tariff Amendment Bill relating to further post-2010 tariff cuts. Some re-balancing of SIP funding, with more than the currently allocated \$50m going toward structural adjustment programs, is also likely to be supported by Labor.

Labor's rationale for seeking the de-coupling of the two bills is that the Government is proposing to legislate further (post-2010) tariff cuts, before even the already legislated post-2005 tariff cuts come into effect, and sufficient time is allowed to pass to assess the impact of such cuts on local textile and clothing firms.

As such, and while Labor has resolved to support the Government in progressing the post-2005 SIP Bill, it will also move to have any further tariff cuts (including those proposed by the Government) deferred, and subject to a review in 2006/07. This review will first look at the impact of the post-2005 tariff cuts upon local firms, before any consideration is given to advancing additional tariff cuts post-2005.

Labor further raised objections to the Government's proposal to legislate post-2010 tariff cuts on the basis Opposition parties remain unclear in their minds whether Australia's trading partners are (or are willing to make) similar adjustments in their own tariff (and non-tariff) protection regimes, thus bringing them into line with current international obligations under previous bilateral or multilateral deals (eg: WTO-based or via APEC) or other separately negotiated Free Trade Arrangements (FTAs) likely to emerge in the years past 2010 (eg: pan-ASEAN+Australia/NZ FTA, Australia-China FTA and the just announced Australia-Malaysia FTA).

Risk that new SIP details won't be settled until 2005

The Government's response to Labor's concerns has been unyielding. In one example of Parliamentary debate, the Member for Indi (Liberal), Sophie Panopoulos, said of Labor that its arguments against the Government's conjoined legislation left her "aghast at the hypocrisy and fraud laced in the speeches of Labor members."

She added, "with the prospect of an election in the wind, the Labor Party wants to have some cheap populist shots at the TCF industry, but cheap veneers of political stunts are not a surprise (and) it's a bit much to take."

The commentary only serves to highlight the severity of the political contest likely to unfold over the coming months, and the Government's wish to find advantage by drawing comparisons between former statements by the new ALP leader, Mark Latham (for example, that tariffs are 'the economic equivalent of racism'), with the Opposition's current refusal to support the Government's conjoined package of post-2005 SIP assistance and post-2010 TCF tariff cuts.

This impasse is set to remain unresolved in the forthcoming weeks, as the Government is more likely to use Parliamentary time to attack Labor over its sustained opposition to the free trade agreement brokered with the United States (AUSFTA). Unless Labor caves-in on tariff cuts, the Government will have no option but to stay both pieces of legislation over to when national government is reformed after the election, and Parliament heads back to Canberra for its first sittings.

On the basis the election falls in the period mid-September to end-October (assuming John Howard wishes to have his own future resolved before President George W Bush faces the polls on 2 November), any newly elected Labor Government (or even a re-elected Howard Government) eager to act on their just-endorsed mandate, might recall Parliament at the end of November/early-December for a couple of weeks to clear pending bills, including (hopefully) the SIP.

Going on their previous form, however, it is unlikely that Parliament will be reconvened until February 2005, meaning confirmation of the certainty of a post-2005 SIP Scheme will not be achieved until much closer (around three months prior) to its actual commencement.

Running the election numbers

Recent political polling indicates just how close the Government and Opposition are to losing/winning the forthcoming election. Newspoll (taken 16-18 July) gave a two-party preferred lead to Labor of 51%, to 49% for the Coalition. AC Nielsen (also taken 16-18 July) scored Labor leading 52%, to 48%, while the 10-11 July Morgan poll said Labor lead the Coalition 54%, to 46%. All polls were taken after Mark Latham had made his emotional press conference appeal about the Liberals' alleged dirt campaign, and subsequent pleading for his family be left alone.

If the outcome of any of the three polls were repeated evenly across all electorates (and this never happens), Labor would win an election because the Government is defending a small majority with many marginal seats. Average the three polls, and you get Labor 52.3%, to the Coalition's 47.6%. Newspoll is regarded by politicians and the media as the most reliable, and said this last week Labor's two-party preferred lead was unchanged - its primary vote at 40%, is down 1%; while the Coalition's primary is unchanged at 43%.

Most satisfying for the Liberals is the 2% improvement in their primary vote, to 40%. Apart from a clearly aberrant poll of 28-30 May, this most recent result is the first time the Liberal primary vote has matched the Labor primary this year. The performance ratings of the two leaders have not changed greatly, although John Howard has lost 2% in the 'Best PM' stakes. Still, these satisfaction ratings and preferred PM polls don't count for much. Getting party support right is the main game. AC Nielsen has not had a survey for a month, and its latest effort is unconvincing. It initially had the Coalition primary vote at 45% (up 2%), but later said there had been an error, and the figure was actually 44%. The ALP was on 40%, down by 2%.

Yet AC Nielsen has Labor with a commanding lead of 52% (to 48%), two-party preferred. With a 4% lead in the primary vote, the Coalition should at least be on even terms with Labor, two-party preferred, and certainly not an election winning 4% ahead. So this AC Nielsen result makes no sense. Morgan is best for Labor, and is at least consistent, with the Labor primary at 46% (up 2.5%), and the Coalition on 41.5% (down 1%). All the polls are close to each other on the Green vote: Newspoll has it at 7% (up 1%); AC Nielsen 9% (up 1%) and Morgan 8% (up 1%). Morgan is the only poll which shows preference distribution, and says Green preferences will go 85% to Labor. All this means if an election was held right now, Labor would win. Realistically, John Howard is not going to face the electorate until his own polls (along with Newspoll), say he can win.

The Textiles, Clothing & Footwear Industry Advisor (C) 2004 [Co-Operative Ventures (Australia) Pty Ltd] brings you the latest facts, analysis and contacts regarding Australia's TCF industries and related Government assistance and support programs.

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