THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

HOUSE OF REPRESENTATIVES

TEXTILE, CLOTHING AND FOOTWEAR STRATEGIC INVESTMENT PROGRAM AMENDMENT (POST-2005 SCHEME) BILL 2004

EXPLANATORY MEMORANDUM

(Circulated by the Authority of
the Minister for Industry, Tourism and Resources
the Honourable Ian Macfarlane, Member of Parliament)
GENERAL OUTLINE

On 27 November 2003 the Government announced a long-term assistance package of $747 million, including two five year pauses in relation to the rate of scheduled tariff reductions, for Australia’s textile, clothing and footwear industry. The policy objective of this package is to foster the development of Australian TCF manufacturing activity so that it is viable and internationally competitive without continued special assistance.

The package includes:

- $575 million for extending the TCF Strategic Investment Program;
- $25 million for establishing a ten year small TCF business grants-based program;
- $50 million for a ten year TCF structural adjustment fund;
- $50 million for a product diversification scheme;
- $20 million for a supply chain efficiency program from 2010 to 2015; and
- $27 million for an extension of the Expanded Overseas Assembly Provisions scheme.

This Bill establishes the framework for the extension of the Textile, Clothing and Footwear Strategic Investment Program, through the formulation of the Textile, Clothing and Footwear Post-2005 Strategic Investment Program Scheme (known as the TCF Post-2005 (SIP) Scheme) and the establishment of the Textile, Clothing and Footwear (TCF) Small Business Fund.

The TCF Post-2005 (SIP) Scheme has been simplified in comparison with the current TCF (SIP) Scheme, with the number of grant types being reduced from five to two which provide subsidies for capital expenditure and innovation activities. Most TCF entities will be eligible for grant support under the Scheme for five years, while TCF entities undertaking eligible clothing and finished textile activities will be able to benefit from the Scheme for ten years. Entities undertaking leather and technical textile activities will not be able to access innovation grants under the Scheme. These provisions are a reflection of the Government’s decision to concentrate support towards those firms facing the greatest tariff adjustment in the future.

The TCF Small Business Program will be a competitive grants program, over ten years, focused on improving the business enterprise culture of small TCF entities unable to benefit from the TCF Post-2005 (SIP) Scheme.

The Textile, Clothing and Footwear Strategic Investment Program Amendment (Post-2005 scheme) Bill 2004 is introduced cognate with the Customs Tariff Amendment (TCF Post 2005 Arrangements) Bill 2004, which will amend the Customs Tariff Act 1995 to give effect to the phase-down rate of duty for TCF articles.

FINANCIAL IMPACT STATEMENT
The total amount available for the TCF Post-2005 (SIP) Scheme and the TCF Small Business Program will be $600 million.
REGULATION IMPACT STATEMENT

Introduction

On 27 November 2003, following consideration of the Productivity Commission (PC) Review of Textiles Clothing and Footwear (TCF) Assistance, the Australian Government announced a ten year $747 million assistance package and a tariff reduction schedule for the TCF industries. The main component of this package is an extension of the TCF Strategic Investment Program (SIP) Scheme through to 2015.

This Regulation Impact Statement reports upon the process undertaken to identify whether new tariff and assistance arrangements are required for the TCF sector. It examines a number of options, including those developed by the PC in its report and provides reasons for the Government’s response.

Background

The TCF Sector
TCF is a very diverse, closely interlinked sector. Its products include yarns, textiles, clothing, footwear, carpets, household textiles including furnishing fabrics and technical textiles. The following table provides indicators which measure the size and relative importance of the sector and the major trends that have occurred since 1996/97. The figures are based on ABS statistics.

In summary, the statistics show that:
- the sector has been declining in both size and significance;
- while levels of production have declined, there has been some increase in productivity;
- demand for TCF products has increased moderately, but imports are supplying an increasingly larger proportion of the market;
- exports have grown but from a low base; and
- small to medium sized businesses are more important employers in TCF than in manufacturing generally.

### Industry Size: Manufacturing Establishments

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/01</td>
<td>1 464</td>
<td>2 958</td>
<td>183</td>
<td>68</td>
<td>200</td>
<td>4 873</td>
<td>49 089</td>
</tr>
</tbody>
</table>

### Industry Size: Employment (Year ending 30 June)

*Source: Manufacturing Survey*

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>19 800</td>
<td>41 700</td>
<td>5 800</td>
<td>2 900</td>
<td>3 500</td>
<td>73 700</td>
<td>937 800</td>
</tr>
<tr>
<td>2001</td>
<td>18 800</td>
<td>26 424</td>
<td>4 223</td>
<td>3 307</td>
<td>3 186</td>
<td>55 940</td>
<td>945 882</td>
</tr>
<tr>
<td>Change</td>
<td>-5.1%</td>
<td>-36.6%</td>
<td>-27.2%</td>
<td>+14.0%</td>
<td>-9.0%</td>
<td>-24.1%</td>
<td>+0.9%</td>
</tr>
</tbody>
</table>
### Productivity Measures: Turnover $m (current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>2 741</td>
<td>4 549</td>
<td>620</td>
<td>604</td>
<td>822</td>
<td>9 336</td>
<td>207 050</td>
</tr>
<tr>
<td>2000/01</td>
<td>2 641</td>
<td>3 461</td>
<td>557</td>
<td>823</td>
<td>882</td>
<td>8 364</td>
<td>251 759</td>
</tr>
<tr>
<td>Change</td>
<td>-3.7%</td>
<td>-23.9%</td>
<td>-10.2%</td>
<td>+36.3%</td>
<td>-10.9%</td>
<td>-10.4%</td>
<td>+21.6%</td>
</tr>
</tbody>
</table>

### Productivity Measures: Turnover per person $ (current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>138 434</td>
<td>109 089</td>
<td>106 897</td>
<td>208 276</td>
<td>234 857</td>
<td>126 676</td>
<td>220 783</td>
</tr>
<tr>
<td>2000/01</td>
<td>140 500</td>
<td>131 000</td>
<td>131 900</td>
<td>248 900</td>
<td>276 800</td>
<td>146 836</td>
<td>266 200</td>
</tr>
<tr>
<td>Change</td>
<td>+1.5%</td>
<td>+20.1%</td>
<td>+23.4%</td>
<td>+19.5%</td>
<td>+76.2%</td>
<td>+15.9%</td>
<td>+20.6%</td>
</tr>
</tbody>
</table>

### TCF Market: Domestic Demand $m (current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>4 252</td>
<td>6 057</td>
<td>1 174</td>
<td>733</td>
<td>827</td>
<td>13 043</td>
<td>232 303</td>
</tr>
<tr>
<td>2000/01</td>
<td>4 500</td>
<td>6 267</td>
<td>1 421</td>
<td>956</td>
<td>959</td>
<td>14 103</td>
<td>290 962</td>
</tr>
<tr>
<td>Change</td>
<td>+5.8%</td>
<td>+3.5%</td>
<td>+21.0%</td>
<td>+30.4%</td>
<td>+15.9%</td>
<td>+8.1%</td>
<td>+55.8%</td>
</tr>
</tbody>
</table>

### TCF Market: Imports by Value $m (current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>2 014</td>
<td>1 916</td>
<td>618</td>
<td>194</td>
<td>492</td>
<td>5 234</td>
<td>73 747</td>
</tr>
<tr>
<td>2000/01</td>
<td>2 307</td>
<td>3 246</td>
<td>926</td>
<td>217</td>
<td>647</td>
<td>7 343</td>
<td>108 331</td>
</tr>
<tr>
<td>Change</td>
<td>+14.6%</td>
<td>+69.4%</td>
<td>+49.8%</td>
<td>+11.9%</td>
<td>+31.5%</td>
<td>+40.3%</td>
<td>+46.9%</td>
</tr>
</tbody>
</table>

### TCF Market: Exports $m (current prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>503</td>
<td>408</td>
<td>63</td>
<td>65</td>
<td>487</td>
<td>1 526</td>
<td>48 494</td>
</tr>
<tr>
<td>2000/01</td>
<td>449</td>
<td>441</td>
<td>62</td>
<td>85</td>
<td>570</td>
<td>1 607</td>
<td>69 128</td>
</tr>
<tr>
<td>Change</td>
<td>-10.7%</td>
<td>+8.1%</td>
<td>-1.6%</td>
<td>+30.8%</td>
<td>+17.0%</td>
<td>+5.3%</td>
<td>+42.6%</td>
</tr>
</tbody>
</table>

### TCF Market: Import Penetration

<table>
<thead>
<tr>
<th>Year</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Footwear</th>
<th>Carpet</th>
<th>Leather</th>
<th>Total TCF</th>
<th>Total Mfg</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>47%</td>
<td>32%</td>
<td>53%</td>
<td>26%</td>
<td>59%</td>
<td>40%</td>
<td>32%</td>
</tr>
<tr>
<td>2000/01</td>
<td>51%</td>
<td>52%</td>
<td>65%</td>
<td>23%</td>
<td>67%</td>
<td>52%</td>
<td>37%</td>
</tr>
</tbody>
</table>
## Employment by size of business - TCF and Total Manufacturing—percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Sector</th>
<th>&lt;20 persons</th>
<th>20–99 persons</th>
<th>100+ persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996/97</td>
<td>TCFL</td>
<td>34%</td>
<td>28%</td>
<td>38%</td>
</tr>
<tr>
<td>1999/2000</td>
<td>TCFL</td>
<td>31%</td>
<td>33%</td>
<td>36%</td>
</tr>
<tr>
<td>1996/97</td>
<td>Total Mfg</td>
<td>24%</td>
<td>27%</td>
<td>48%</td>
</tr>
<tr>
<td>1999/2000</td>
<td>Total Mfg</td>
<td>24%</td>
<td>28%</td>
<td>47%</td>
</tr>
</tbody>
</table>

### TCF Structural Change and Government Policy

Australia’s TCF sector has been the beneficiary of decades of Government support including significantly higher than average tariff rates and generous direct and indirect budgetary support. Protection against international competition encouraged the growth of an industry which produced, albeit relatively inefficiently, the full range of goods from processing of natural fibres to finished textiles, carpets, apparel and footwear. The industry was a major employer of lower skilled manufacturing workers, especially newly arrived female migrants of non-English speaking backgrounds. Government regional development policies also encouraged the sector to set up operations in rural areas.

In the past two decades, Government has exposed the sector to international competition by reducing tariffs and removing quotas. Tariff reform has been driven by the Government’s desire to improve the overall performance of the Australian economy, enhance consumer benefit through lower TCF prices and ensure that TCF is treated no differently to any other manufacturing sector.

The success of the tariff reform in bringing down TCF prices can be seen in the following table reporting changes in the Consumer Price Index over the last 10 years:

### Consumer Price Index for TCF goods and all products

<table>
<thead>
<tr>
<th></th>
<th>1992/93</th>
<th>2002/03</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia - CPI for all products</td>
<td>107.9</td>
<td>139.5</td>
<td>29%</td>
</tr>
<tr>
<td>Textiles - Towels and Linen</td>
<td>106.8</td>
<td>114.8</td>
<td>7%</td>
</tr>
<tr>
<td>Textiles - Floor and window coverings</td>
<td>101.0</td>
<td>132.0</td>
<td>31%</td>
</tr>
<tr>
<td>Footwear</td>
<td>105.4</td>
<td>102.4</td>
<td>-3%</td>
</tr>
<tr>
<td>Clothing</td>
<td>108.4</td>
<td>117.1</td>
<td>8%</td>
</tr>
</tbody>
</table>

Other factors placing strong pressure on the Australian TCF sector include changes in the global marketplace and the shift in production to low wage, developing countries. Import penetration of the Australian market has grown rapidly over the last decade and is now at 52% for clothing and 65% for footwear. On overseas experience, it is expected that these rates will continue to grow for these sectors until they reach around 70 to 80% or possibly higher in the case of footwear. Changes in technology and patterns of consumer demand are also forcing the sector to adapt.

Firms have responded to the pressure in many ways including closure, takeovers, rationalisation of operations, entering global sourcing arrangements, and outsourcing.
of manufacturing either locally or overseas. This has led to a substantial contraction in the sector as the numbers of firms and employees and levels of production decline. This decline is similar to that experienced by TCF industries in all developed economies.

Adjustment has occurred in all TCF sectors. In footwear, most of the adjustment has already happened with firms producing fashion items closing down or shifting production overseas. In clothing, substantial rationalisation has taken place amongst lower value, commodity style products. Prospects for the carpet sector are more positive. In general more adjustment pressure is expected as imports continue to increase, consumer tastes change and retail strategies adapt to new market conditions. The impact of this adjustment continues to flow up the supply chain as manufacturers of textiles, yarns and other inputs suffer a loss of customers and increased import competition.

Government policies over the last 15 years have sought to assist this change and to ease the burden of adjustment. The success of these initiatives has been influenced to a greater or lesser degree by the enormous changes occurring in the global context in which this sector operates as well as the residual impact of previous government policies.

Current Assistance Arrangements
The current assistance arrangements came into effect in 2000 and are set to expire in 2005. The details of the arrangements are outlined below.

Tariffs
The current TCF tariff arrangements took effect from 1 July 2000 and will continue to apply until 1 January 2005 when the new legislated rates come into effect. The rates that apply at these dates are set out in the table below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Pre July 2000</th>
<th>Post July 2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clothing and certain finished textiles</td>
<td>28%</td>
<td>25%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Footwear</td>
<td>18%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Cotton sheeting, woven fabrics, carpet</td>
<td>17%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Footwear parts</td>
<td>12%</td>
<td>10%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Sleeping bags, table linen</td>
<td>11%</td>
<td>10%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Other TCF products</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

The legislated reduction in tariff rates in 2005 will impose pressure on the TCF sector to continue to adjust and may lead to dislocation for workers and firms.

Textiles, Clothing and Footwear Strategic Investment Program (SIP)
The SIP scheme in tandem with the tariff pause, provides a practical transition designed to promote investment and innovation in the TCF industries and ready the industry for a more open trading environment from 2005 onwards. SIP is an
entitlement scheme with a total budget appropriation of $678 million. The final program year is 2004/05 with claims to be paid out in 2005/06. It provides five types of grants, three of which subsidise firms for expenditure on investment, innovation and associated value added. The other two grants assist the restructure of firms in regional TCF dependent communities. The program is delivered through AusIndustry and has a number of requirements such as thresholds and caps that affect the availability of support. To date, it has not been necessary to introduce modulation as calls on the scheme have not exceeded annual allocations of funds.

The SIP scheme has helped to attract resources to more competitive areas of manufacture such as technical textiles and carpets, both of which have high levels of capital intensity. Technical textiles have made use of the incentives within SIP to introduce new plant and equipment and produce new and enhanced products with non-TCF applications. For carpets, SIP payments have assisted firms to consolidate the rationalisation that occurred during the early to mid 1990s and to invest in new, more efficient plant and equipment. SIP has not, however, been able to turn around the decline that has occurred in the more labour intensive areas of TCF manufacture especially clothing and footwear.

**Expanded Overseas Assembly Provisions (EOAP)**

The EOAP provides a duty concession for the offshore assembly of fabrics and leathers manufactured in Australia. It aims to encourage the retention of high value added activities in Australia by removing disincentives on the overseas outsourcing of low skilled, labour intensive activities. Revenue forgone for the four years from 1999/00 to 2002/03 was $19.9 million. EOAP is scheduled to expire in mid 2005.

**The Problem**

The TCF sector in Australia, while heavily supported by sector-specific assistance, is nevertheless undergoing significant change driven by increased international competition. In addition, in view of the inefficiencies involved for the economy, sector-specific assistance is being reduced. The adjustment in the industry in response to these changes has attendant costs and the profile of the TCF workforce suggests that these adjustment costs could be high when compared with other sectors. Thus the problem is to reduce assistance to the industry in such a manner as to lessen the impact of adjustment costs in the TCF industry while ensuring that benefits flow to the Australian community from reductions in tariffs and subsidies.

The structural adjustment and rationalisation that TCF has undergone over recent years is expected to continue as tariffs are further reduced and import penetration continues to increase. It is in the best interests of the Australian economy and of the TCF sector that this change occurs in a way that directs resources to their most efficient use, minimises transitional costs and produces net economic benefits.

The options for facilitating appropriate change are either:
- responses by firms to shift resources out of the sector or into more sustainable activities without government intervention; or
- initiatives by government that reduce the adjustment costs.
Firms in the sector have responded to the adjustment pressure in many different ways. These have included company closures, takeovers, rationalisations and consolidation. Current government support has encouraged many firms to invest in labour saving plant and equipment, raise productivity or become more innovative. This support has helped firms increase their market share by adding value to their product range and establishing new markets.

However, their capacity to respond more effectively has been limited by a range of factors outside their control or beyond their capacity to solve. These include:

- the extent and rapidity of the change that has taken place in the global marketplace in recent years, especially with the rapid rise of China as the dominant player in clothing and footwear over the last five to eight years;
- the lingering impact of previous government policies which encouraged production in areas that Australia had no sustainable competitive advantage without protection;
- an industry culture that believes that the sector’s survival is dependent on government support for which they are entitled; and
- the persistent failure of many firms to develop long term strategic planning skills and the prevalence of decision making driven by short term considerations to maximise immediate returns.

The Australian Government is committed to a program of tariff reform through its membership of APEC and WTO. It is also committed to enhancing consumer benefit through lower prices and to improving overall economic efficiency through reduced cost structures and better resource distribution. However, these policies will contribute to further contraction and rationalisation of the TCF sector, particularly amongst the more labour intensive areas such as clothing. Regionally based firms may also experience greater pressure because of the impact increased imports could have on their markets or their customer base.

The Government is also committed to moving away from sector specific support towards more generic measures. This is a process that is occurring in all developed economies around the world where previously TCF has received more favoured treatment than many other sectors. With the winding down of support, however, there is a need to provide policy certainty and predictability. The sudden removal of sector specific support could undermine investor confidence and cause the withdrawal of resources from areas that could contribute positively to Australia’s economic wellbeing. A measured wind-down of support will provide the predictability the sector needs to develop long term strategies that manage the risk of integration into the global economy.

The Government has a role to play in assisting TCF workers and firms who will be affected as a consequence of a decision to pursue further tariff reform and further opening of the Australian market. By providing support, the Government can reduce the transitional costs and contribute to a more efficient adjustment process.

Government action is also warranted to address those factors that inhibit the sector’s capacity to make positive and effective change. A strong clear message to industry that sector specific support will come to an end will challenge the industry’s belief
that it has a unique and continuing entitlement to government support and force firms
to take hard decisions about their own future. This message will be reinforced with
the implementation of an orderly program of tariff reduction. The incentives provided
by Government will assist firms to become more strategic in their decision making
and to improving their long term competitiveness.

Objectives

The proposed post 2005 assistance arrangements for the TCF sector to replace the
current arrangements are designed to meet four broad objectives:

- to ease the burden of structural adjustment that firms and workers in substantial
  parts of the TCF sector will experience as a consequence of increased
  competitive pressures, including the tariff rate reductions to be implemented
  from 1 January 2005;
- to encourage TCF manufacturers to improve their international competitiveness
  so that they can compete more effectively in the domestic and international
  marketplace and can exploit emerging opportunities;
- to bring to an end the special assistance provided to TCF within a reasonable
  period of time; and
- to provide an overall community benefit including improved performance of the
  Australian economy and reduced consumer prices.

Options

In November 2002, the Government tasked the Productivity Commission (PC) to
review the TCF sector and to identify options for future assistance arrangements post
2005. The PC presented its report to the Government on 31 July 2003. The various
options put forward by the PC were examined by the Government. It also investigated
several other options that were not canvassed by the PC.

The Government has accepted the PC’s preferred tariff option. It also agrees that an
extension of SIP provides the most cost effective and administratively efficient way of
delivering budgetary support to the sector.

Not all the SIP modifications proposed by the PC have been incorporated into the
Government’s recommended option. Some were already part of the current
arrangements while others were not considered appropriate. The Government has also
structured its package to provide additional support for clothing and certain finished
textiles producers as they face greater adjustment pressure and need additional time to
absorb these changes.

The PC’s tariff options

The PC canvassed four tariff options, based on whether the reduction to 5% would
take five or ten years, and whether the drop would be achieved by phase downs or by
step downs. Its preferred option was to reduce tariffs in two steps with all products
except clothing and certain finished textiles coming down to 5% in 2010. At that
date, rates for clothing and finished textiles would come down to 10% and on
1 January 2015 would step down again to 5%. The preferred option is supported by
Government.
The PC’s options for direct budgetary support
The PC canvassed three options, two of which were adaptations of the current entitlements approach of SIP and the third used a competitive grants approach. The Commission in its position paper suggested a large funding package and long time frame, in line with industry’s submissions. This had the effect of narrowing the debate to matters regarding the size of the package and the period of availability rather than opening it up to identify measures that may be more appropriate to the needs of industry post 2005.

Following reaction by industry and other stakeholders, the PC indicated in its final report that it preferred an extension of the current SIP arrangements with several modifications. These changes include support for second hand equipment not linked to regional restructuring, subsidising investment in market and brand development, fine tuning the definition of R&D and innovation, discontinuing conditional grants for value added and several administrative measures. The Government has agreed with the PC that an extension of the current SIP arrangements is a cost effective and administratively efficient way of delivering support to the sector. It has, however, accepted only some of the modifications proposed.

Additional options for providing direct budgetary assistance
The additional options for budgetary assistance that could be explored involve a combination of different approaches depending on the relative priority given to the following questions:

- who should the program target; should it be those likely to face the greatest level of adjustment or should it be available to all the sector?
- what outcomes is the Government seeking from this program; is it wanting to help resources leave the sector; should it try to slow down the adjustment process by providing support that encourages firms to continue manufacturing; should it seek to encourage firms to become more competitive; if so what competitiveness drivers should it target?
- over how many years should the program be delivered; should it continue until all tariffs reach 5% or should it terminate after five years when most tariffs come down to 5%?
- should the program continue as an entitlement program that compensates firms for expenditure or should it be a competitive, discretionary program with grants awarded on the basis of relative merit?
- how large should the package be and what measures should be used to provide industry with sufficient incentive while ensuring the funding amount complies with the Government’s budget strategy and remains within fiscally appropriate limits?

The following budgetary options have been subjected to further analysis:

- discontinue further direct budgetary support post 2005;
- the PC preferred option - extend SIP with modifications;
- extend SIP with modifications and additional support for clothing and finished textiles;
- a competitive grants scheme targeting small firms that cannot benefit from an extended SIP program;
- a competitive grants scheme targeting supply chain initiatives;
- an import credit scheme for clothing and finished textiles;
- continue the EOAP (Expanded Overseas Assembly Provisions); and
- a structural adjustment fund.

**Impact Analysis**

**Tariff options**
Discussion on the four PC tariff options has been consolidated into two effective options with two different methods of implementation (either phasing down or stepping down the rates).

- **All TCF tariffs to 5% on 1 January 2010**

A further reduction in tariffs from the rates applying at 1 January 2005 should lead to reduced prices for TCF goods. The community should benefit from lower prices for clothing, footwear and other finished products such as sleeping bags, table linen and carpets. It will provide consumers with a wider choice.

Input costs should also reduce for local manufacturers using cotton sheeting, woven fabrics and footwear parts in the production of final goods such as furniture.

This option allows Australia to fulfil its commitments under the APEC Bogor Agreement which it signed in 1994. This stated that Australia, along with other industrialised APEC members would achieve free and open trade by 2010 by reducing tariffs and non-tariff barriers. This has been taken to mean rates of 5% for all items.

However, this option puts substantially more pressure on clothing and finished textiles manufacturers who will face a 12.5 percentage point decline in rates compared to the maximum five percentage points for any other product. Clothing already is under significant pressure because of rising import penetration and the larger number of workers that face significant problems in finding alternative employment because of their lower skills and other characteristics.

The step down approach has the disadvantage over phasing down in that it reduces the pressure on industry to adjust until the last moment and could lead to increased demands for a further review prior to the next reduction. At the same time, it will be simpler to administer, easier to sell to industry and contribute to a more complete package when combined with direct budgetary assistance.

- **Tariffs for most items to 5% by 2010; clothing and certain finished textiles to be reduced to 10% at 2010 and to 5% in 2015**

This option could be seen by Australia’s APEC partners that it has stepped back from its commitment to the Bogor Agreement. This concern can, however, be addressed by legislating these changes to provide reassurance that the rates will be reduced as soon
as is possible without imposing unnecessary burdens on specific sections of the Australian community. Further tariff reductions, and their early legislation, are broadly in line with the Government’s APEC commitment to “free and open” trade by 2010, as 77% of all TCF tariff lines will be at 5% or lower in 2010. Extending the period to ten years for clothing and finished textiles acknowledges the extra adjustment pressure they will bear. The step down approach is preferred to phase down for the reasons previously discussed.

Budgetary support options
In analysing the impact of the options identified above, the following factors have been used to determine the effectiveness and appropriateness of each to meet the Government’s objectives:

- is the measure likely to produce the desired change;
- will it encourage any negative behaviour or distortions;
- can it be delivered efficiently and cost effectively;
- does it discriminate against any group or individual; and
- do the overall benefits outweigh the costs to the community of providing the support.

- **Discontinue further direct budgetary support post 2005**

An important objective for the Government, as stated in the Terms of Reference for the PC Inquiry, is to reduce the support given to the TCF sector to levels that apply to manufacturing in general. This option together with the tariff reduction would be a significant step in achieving this goal.

The withdrawal of direct support recognises that, irrespective of how much support is provided, the TCF sector will continue to contract and decline. Change is being driven by a rapidly changing global market place with production shifting away from developed, high wage economies to developing economies such as China with much lower wage rates. This trend is being reinforced by easy access to technology and growing capability in these countries. Governments can do nothing to stop these changes and even if they could, many would consider it inappropriate for them to interfere in the workings of the market.

It also recognises the difficulty in designing a program that meets the diverse and changing needs of this sector. The current program provides support for competitiveness drivers that relate to manufacturing whereas the future of the industry in Australia lies more in a combination of manufacturing and non-manufacturing activities such as branding and a range of other service provision and supply chain relationships.

The withdrawal of direct support is likely to increase the disruption and transitional costs that firms and workers will experience as a consequence of the tariff reductions and subsequent job losses. This is the Government’s least preferred option. By continuing support, the Government can contribute to a more efficient process of adjustment. It can also help firms capture emerging opportunities and become more competitive.
The PC prefers option – extend SIP with modifications

The PC believes that the sector’s adjustment to a lower tariff environment would be best handled by a “seamless” continuation of the current SIP scheme. It recommended funding over eight years for all firms with the first four years being at the same nominal funding levels of the present SIP and halved for the next four years. This would be equal to a package of around $600 million over eight years.

Extending the current SIP arrangement for another five to eight years offers considerable advantages from a delivery point of view:

- the industry is now familiar with this approach and would be able to make maximum use of the program from its commencement; and
- AusIndustry has experienced staff with industry knowledge, well established relationships and high levels of regard amongst its clients and the infrastructure to deliver the scheme at minimum cost and maximum benefit.

A “seamless” transition with little difference to previous arrangements is likely, however, to entrench the view that the sector is entitled to continued government support. By continuing to support those drivers most relevant to manufacturing, it could slow down the adjustment process by providing an incentive for resources to remain in areas of greater vulnerability and reduce the pressure on them to respond to market signals. It also continues to provide equal access for all firms without linking the availability of support to the rate of tariff reform and degree of adjustment being experienced.

The PC proposed several modifications some of which involve policy changes, others intended to improve the delivery of the scheme. The modifications include:

- Incorporate a clear and explicit objective

As the PC noted, this would address some of the misunderstanding that existed, particularly in the early days, of the purposes for which SIP was set up. It may also lead to fewer AAT (Administrative Appeals Tribunal) appeals since it will be clearer who the scheme seeks to benefit. This recommendation has the Government’s in-principle support.

- Provide more general support for the purchase of state of the art second hand equipment and ancillary expenditure.

This recommendation has strong support from many of the more capital intensive firms, especially textile manufacturers. In the present scheme, second hand equipment can only attract support as part of a restructuring initiative for firms in TCF dependent communities (Type 4/5 grants). Making all purchases eligible would have several disadvantages:

- it would distract from the message that investment in new plant and equipment is an important driver of competitiveness;
• if equivalent state of the art equipment is available second hand, firms should take advantage of the discount in price rather than seek further subsidisation; and
• implementation of such an initiative would be administratively onerous because of the need to track the history of the machine and maintain extensive records to prevent rorting and doubling up of claims.

The provision of general support for second hand equipment is not supported by Government.

This recommendation also involves the deletion of the Type 4/5 grants. While these grants covered a narrow range of activities, they recognised that the sector is still important to several regions.

- Subsidise investment in market and brand development

In the most part, the modifications that the PC call for here already apply under the current SIP arrangements. Type 2 (Innovation) grants provide a rebate of 45% for expenditure on brand support activities (such as trade showings and in-store promotions) for innovative products with trade mark registration or market research (market testing, development or sales promotion) for introducing an innovative product.

The extension of branding support more widely (i.e. for non-innovative TCF products) but treating it as a capital investment (Type 1) grant recognises the importance of this activity to developing strong and sustainable markets in this sector.

- Discontinue Type 3 (value added) assistance

The PC called for this change to simplify the program and to eliminate the variability in the level of payments that firms receive as a consequence of the capping mechanism. Removal of Type 3 would, however, cause an effective halving of the subsidy rates for Types 1 and 2 grants. This proposed modification has been picked up in the Government’s recommended approach and subsidy rates have been increased to the indicative rates of 40% for investment and 80% for innovation.

The PC also called for a number of administrative modifications that are either currently provided for or were implemented to handle specific problems and would not apply generally.

• The recent departmental review of SIP led to fine tuning definitions of R&D and innovation to make it clearer what activity was eligible.
• Provisions exist to ensure firms are paid their entitlements within a reasonable time. These include regular advances and requirements that all payments should be made within a certain time frame after submission of a claim. Much of the delay between the time the expenditure is incurred and reimbursement made is due to firms submitting claims late.
• Certain amendments were made to SIP to cope with particular circumstances that could have led to a company collapse with significant repercussions.
The broad legal requirements relating to insolvency and administration will determine at what time a firm is no longer considered a trading entity and thus loses its entitlements under this scheme.

The PC noted that this option would retain the discrimination that exists in the current scheme against small businesses. This is because firms must incur $200,000 worth of eligible expenditure before a grant can be made. It recommended that consideration be given to a separate initiative to meet the needs of such firms.

The $200,000 threshold is not considered particularly restrictive for those small firms that use additional investment and innovation expenditure to improve their competitiveness as it can be accumulated over the life of the program. It also ensures that support for these drivers goes to firms with sufficient substance to make effective use of the grant. It, however, discriminates against those small firms for whom competitiveness derives from other drivers such as supply chain management, skills development or service provision.

The PC’s preferred option provides support to all sectors irrespective of the degree of tariff adjustment being faced. Under the current SIP arrangements, firms in the more prosperous parts of the sector are receiving a higher share of the funding than those under the greatest pressure to adjust.

**Extend SIP scheme with modifications and additional support for clothing and certain finished textiles**

This option is similar to that favoured by the PC but gives more weight to supporting those firms likely to experience greater transitional costs as a result of the tariff reform. Consideration has been given to how to capture the benefits of extending the current SIP scheme while ensuring that new arrangements reflect the changes that have occurred in the sector since SIP was designed and address the criticisms made regarding its complexity. The features of this option are:

- A 10 year program worth a total of $600 million with the initial five year extension to 2011 to be available to all firms undertaking eligible TCF activities at the cost of $100 million per annum (some restrictions will apply to the leather and technical textiles sectors as they face the least adjustment). The further five year extension to 2016 would be available only for clothing and certain finished textiles at an annual cost of $20 million.
- Continuation of the Type 1 (Investment) and Type 2 (Innovation) grants at the increased indicative rates of 40% and 80% respectively to compensate for the deletion of Type 3 (Value Added).
- Support for branding activities to be provided for all as part of Type 1.
- Support for relevant IT expenditure to be provided only for clothing and finished textiles as part of Type 1.
- Type 4/5 grants to be moved out of SIP into a discretionary initiative that will provide support for restructuring initiatives for all firms including those in metropolitan areas and some labour adjustment measures.
The advantages and disadvantages of extending SIP, irrespective of the modifications made, have been discussed elsewhere. The modifications proposed here are intended to better meet the particular needs of TCF sectors and match it to the amount of adjustment pressure that sectors face. The modifications will in a general sense also simplify some delivery aspects.

It is for this reason that leather and technical textiles sectors will have restricted access to the new program, and will only be able to access investment grants. These two sectors face the least adjustment pressure and are highly capital intensive, so it is logical to grant them access to investment grants only. The nature of innovative activity these two sectors undertake is more technically oriented and hence eligible and well suited to assistance under the Government’s existing generic innovation and R&D programs.

On the other hand the clothing and finished textiles sector – which faces the largest adjustment pressure – will require an additional five year extension of support to 2016 recognising that these firms will experience a greater degree of dislocation than most other sectors because of the extent of the tariff reduction and the intensity of the competition they are facing. While import penetration is currently around 52% for all TCF, import levels are rising much more rapidly in clothing (on average 17% pa over the last five years) than for other sectors (on average around 6% pa).

The firms in these sectors also have a number of other characteristics that need to be taken into account when designing appropriate support measures.

Despite a rapid decline in employment numbers over recent years, clothing firms still employ more than 26 000 people or 46% of all TCF workers. The clothing workforce is likely to experience lower job mobility than other areas of TCF or manufacturing in general. Almost 70% of clothing workers are female, compared to 48% for textile workers. The skills they have are generally more sector specific than for other areas of production. More than 50% of clothing workers come from non-English speaking backgrounds; the comparable figure for textiles is 29% and 20% for manufacturing in general. The clothing workforce tends to have lower educational qualifications than the manufacturing workforce in general with two thirds having no post school qualifications. Around 60% of clothing workers are 40 years or older.

Certain finished textiles covers manufacturers of a range of products including towels, blinds and curtains. These manufacturers have improved their competitiveness with large scale investment in plant and equipment through SIP but they remain vulnerable because of continually changing technology and distance from markets.

Apart from the second tranche of targeted assistance after 2011, clothing and finished textiles will also benefit from support for IT expenditure. Modelling has suggested that these two changes will increase the proportion of funding support for clothing and certain finished textiles from 30% at present to around 42% under the new arrangements.

It is important to note that there are many opportunities for development in the TCF sector. These opportunities are not restricted to any particular product or activity but
depend very much on the capacity of the individual firm to create a competitive advantage. Investment in new plant and equipment, innovation, branding, and dedicated IT all play an important role in helping a firm capture new opportunities:

- new plant and equipment can help a firm reduce labour, energy or other costs or lead to improvements in productivity that will make products more cost competitive;
- a new machine can allow the adaptation or improvement of an existing product to meet the needs of a new market;
- innovative product development is the basis for niche markets;
- innovative process development can lead to more flexible, better quality, lower cost production techniques;
- investment in branding is critical to the development of markets for products that rely on non-price factors such as reputation, image and quality; and
- amongst other things, expenditure on dedicated IT is important in helping clothing firms participate in e-business initiatives and enhance the logistics and service side of their business.

As the PC noted, the current Type 3 (Value Added) grants introduce a degree of complexity and variability into the calculation of a firm’s entitlement because of the capping provisions. This grant also leads to confusion in the minds of applicants who do not understand its purpose or its calculation as well as additional compliance costs. The same incentive can be provided by eliminating Type 3 and increasing the subsidy rates for Type 1 and 2 grants.

Under existing SIP provisions, Type 4/5 grants are available at the Minister’s discretion to assist restructuring for firms in regional TCF dependent communities. Support is provided for state of the art second hand equipment and ancillary activities. It is proposed that this measure should no longer be part of the extended SIP but that it be incorporated into a new initiative directed at structural adjustment matters. This option, which is discussed below, includes the extension of the measure to firms in both regional and metropolitan areas with eligibility assessed on the basis of a set of criteria without Ministerial involvement. This change offers administrative and policy advantages. It picks up on recommendations that the PC made regarding Type 4/5 grants.

The continuation of SIP has a similar level of WTO risk as current SIP measures and is not dissimilar to ACIS (the Automotive Competitiveness and Investment Scheme). Any entitlement will be capped at 5% of a firm’s total eligible revenue.

- **A competitive grants scheme targeting small firms that cannot benefit from an extended SIP program**

A discretionary, competitive grants scheme directed at small firms would provide an opportunity to address issues that are not currently covered by the SIP scheme. Grants would be available to firms to undertake projects that would contribute to improved competitiveness through drivers other than investment and innovation. This could include supply chain, market development or workforce skills development. The
decision to award a grant would be based on eligibility and merit criteria and in competition with other projects.

The main advantages of a competitive program would be:
- it could be targeted more precisely than an entitlements scheme to those activities most likely to bring about change;
- it is easier to demonstrate additionality, that an activity would not have occurred or would have been significantly delayed without the grant funding;
- by focusing support on projects rather than firms, it is less likely to create a competitive advantage for one firm over and above that provided to any other firm;
- it could lead to greater cooperation and collaboration between firms as they work together on a project; and
- this approach would challenge the belief that has grown up amongst many TCF firms that they are entitled to government support and do not have to do anything out of the ordinary to earn it.

The main disadvantages of this approach are:
- it would be more expensive to deliver than an entitlements scheme;
- the introduction of a further range of initiatives adds more cost and complexity to delivering the program and could lead to confusion over policy intent; and
- government is not necessarily the best means for assessing the comparative merits of projects or for identifying what industry needs to do to solve its problems.

In submissions to the PC Inquiry, the industry drew attention to other drivers of competitiveness. These include supply chain management, workforce skills and training, managerial innovation. These drivers are often more relevant to small firms who tend to be less capital and research intensive, especially smaller clothing manufacturers. A competitive grants scheme could be used to support projects that encourage international competitiveness without being prescriptive about the types of activities that would contribute to this objective.

The PC and others have criticised the existing SIP scheme on the grounds that it discriminates against smaller firms. It has been claimed that SIP is both more relevant to the needs of larger firms because of its focus on capital investment and is easier for them to access because of the expenditure thresholds, the compliance costs and the scheme’s complexity.

Small firms have always been an important feature of TCF, particularly amongst clothing manufacturers:
- In 1999/2000, 64% of all TCF businesses employed less than 100 persons. The comparable figure for all manufacturing is 52%.
- On a state by state basis, the proportion of firms employing less than 100 persons is even higher in New South Wales (70%) and Victoria (60%).
- Firms in TCF with less than 20 employees have risen at a much faster rate than firms of any other size for this sector or for total manufacturing. In 1999/2000,
TCF firms of less than 20 employees made up 31% compared to 24% for total manufacturing.

Small firms do not, however, have a good record in making effective use of government programs and often require specially tailored delivery methods such as dedicated client managers to help them develop projects of sufficient quality. While the results can be good, they can be quite expensive to achieve.

At the same time, small firms, particularly in TCF can be more innovative and entrepreneurial than larger firms. Despite the large rate of company failure, many will become the sustainable, prosperous companies of the future.

- **A supply chain program for clothing and finished textiles sectors**

For similar reasons to above, a competitive grants-based program to support major capital investments which would strengthen the local supply chain for the clothing and finished textiles sector to overcome potentially weak linkages is also warranted. The scheme would be open to companies in the clothing and finished textiles sector (and related textile suppliers). Projects would need to demonstrate that the investment would enhance the competitiveness of local clothing and finished textile manufacturing.

8. **An Import Credits Scheme for clothing manufacturers**

This option was developed in order to provide additional support to clothing and finished textiles manufacturers in recognition of the extra adjustment pressure they will experience and the potential job losses that will result from the tariff reductions. The import credit will allow eligible manufacturers to import finished clothing and textiles at a discounted tariff rate, with the amount of credit being linked to a firm’s additional production. The credits will not be transferable.

The main disadvantages with this approach include:
- it is possible that firms will be encouraged to establish arrangements or move into new areas that are not necessarily in their long term interest but which allow them to maximise their short term return from the scheme;
- the administrative costs are likely to be quite high in relation to the amount of support delivered;
- the encouragement this gives to clothing manufacturers to become importers may be inconsistent with other emerging trends or with the retail strategies of the firms’ customers; and
- the existence of the credits could be used by retailers to force producers to cut their profit margins or dictate the use of the credit to the benefit of the retailer.

This approach does, however, provide a relatively straightforward and easily understood way of delivering support to that part of the sector facing the most adjustment. By linking it to additional production, it is likely to limit the level of total claimants. Making eligibility dependent on other elements of the package would ensure firms understand that the support is intended to give them greater exposure to and encouragement to participate in the global market.
The total assistance that a firm can receive from both the new SIP and the Import Credit Scheme in any one year will be capped at 5% of total eligible revenue so as to minimise the possibility of being found to be causing serious prejudice under World Trade Organization’s (WTO) rules. From a WTO perspective it also important to note that unlike a similar TCF scheme which operated in the 1990s, this scheme is not based on exports to earn import credits.

8. **Continue EOAP**

The PC has proposed a continuation of the EOAP until 2010. This scheme provides for zero duty on those parts of the finished clothing that comprises Australian made inputs. This will provide clothing manufacturers with further tariff relief to undertake activities that will encourage their involvement with the international marketplace, in this case outsourcing the more labour intensive machining activities. The benefits to be derived from EOAP will diminish as tariffs reduce. Over the five years this will cost approximately $27 million in revenue forgone. The Government implemented this proposal in December 2003.
9. **A structural adjustment fund**

This option was developed in recognition of the degree of uncertainty that surrounds the nature and extent of structural adjustment that could occur post 2005, especially in regional areas. Already resources have moved out of the TCF sector and more change is likely to occur over the next two years to 2005. Still further change is likely after that, particularly amongst clothing workers, with consequent impacts on textile firms and others supplying inputs to clothing manufacturers. The total extent and timing of this change is, however, difficult to predict at this stage.

This option seeks to address three major adjustment issues:
- the restructuring of firms in both metropolitan and regional areas;
- the impact of the adjustment on regional communities; and
- the decline in job opportunities particularly in regional areas.

TCF regional workforces have changed substantially over recent years, particularly with the contraction of clothing and footwear manufacture. Whereas previously many clothing and footwear manufacturers maintained quite sizeable factories in country towns, most have now closed. Some of these jobs shifted to larger regional cities such as Albury or Geelong. Most, however, were lost to the sector as the firms closed or shifted their manufacturing overseas.

A large part of regional TCF now comprises yarn, textile and finished textiles production. These operations are more capital intensive and employ much smaller workforces than do clothing and footwear. They also tend to manufacture products that compete on non-price factors. These include technical textiles, high performance clothing for specialised purposes or industrial and safety footwear which can require higher skills levels.

The Census statistics for 2001 indicate that TCF workers in those regional centres where the industry is a major employer are demographically more similar to those of manufacturing in general than are clothing workers:
- more than half of the TCF workers in Ballarat, Geelong, Stawell and Wangaratta and Devonport were male;
- more than 70% of workers in Geelong and over 80% in Ballarat, Bendigo, Geelong, Stawell, Wangaratta and Devonport were born in Australia; and
- more than two thirds had no post school qualifications.

Unless there is a complete shutdown of operations in the town, the capacity of these workers to find alternative employment will be determined by similar factors to those applying for any other worker in the area. These include the strength of the local economy and the personal characteristics of the individual.

The awarding of structural adjustment grants would be project specific and discretionary. This would replace existing Type 4/5 grants arrangements under the current SIP which provide special grants for ancillary restructuring activities. The eligibility for assistance to this package would also be broadened to enable firms
located in metropolitan areas to access the above. Elements of these grants may be contingent on a level of state government contribution towards any restructuring initiative.

The TCF industry called for the existing provision to be opened up so that the eligibility for assistance is extended to firms in metropolitan areas. This indicates a potential pent up demand and will increase the call on this type of assistance – as will the ongoing adjustment and competitive pressures that will continue to impact on the TCF sector.

The extension of restructuring initiatives to firms in metropolitan areas recognises:
- the changes that have taken place in the geographical location of plants and the shift of the industry away from the regions to outer metropolitan areas and large regional cities; and
- the positive effect that restructuring can have on producing stronger, leaner firms irrespective of their location.

The fund could augment and supplement existing services and support from the Department of Employment and Workplace Relations (DEWR) and the Department of Transport and Regional Services (DTRS). It could be available for displaced workers affected by large scale plant closures in TCF dependent communities. Activities funded could include rapid response measures to help workers access existing services, helping local communities develop and plan alternate employment creation schemes or provide financial counselling and intensive retraining for individual workers.

Employers are required by law to notify Centrelink in advance when they are retrenching 15 or more staff. Centrelink may provide an on-site presence with registration interviews and information on employment services including Job Network services. Job Network services include:
- Job Search Support Only. This is immediately available for workers who have had official notification of redundancy and received a termination date. The service includes help in developing resumes, access to job vacancy information and search facilities, advice on job search techniques, career options and employment programs. Such people can also register once they have a “separation certificate” for income support at Centrelink. Their eligibility will depend on income and assets tests and whether they have received a redundancy package.
- Intensive Support is available to eligible job seekers who have been unemployed for three months. Services include help with job search application writing, updating resumes and improving interview skills. Intensive Support customised assistance is available to highly disadvantaged job seekers whose eligibility is determined by the Job Seeker Classification Instrument, and those job seekers who remain unemployed after twelve months. Services may include intense work preparation, work experience, training and counselling.

The introduction of new measures in addition to those already existing through the Job Network program could produce duplication and dead weight costs. These costs could include distortion of the local job market by favouring some workers over
others and providing assistance to people who would have been successful without the additional measures. Such an approach could also be criticised in that it will come into effect when much of the adjustment has already taken place.

The Regional Partnerships Program is a competitive grants program that provides funding to assist communities, governments and the private sector to work in partnership to foster the development of self-reliant communities and regions. The four areas that this program focuses on are:

- strengthening growth and opportunities for economic and social participation in the community;
- improving access to services;
- supporting planning and assist communities to identify and explore opportunities and develop strategies for action; and
- assisting structural adjustment to major economic, social and environmental change.

The capacity of a community to make effective use of this program depends on the existence of leadership and vision and a strong, committed group of people to develop, sponsor and implement a high quality project. The appropriation could be used to provide additional short term capacity to increase awareness of this program and to develop good quality, relevant projects within vulnerable communities.

**Consultation statement**

The PC undertook a public consultation process as part of its inquiry. It received 180 written submissions, of which 73 were from individual firms, 40 from industry associations, 33 from Commonwealth, State and local government, 11 from unions and 23 from other interested stakeholders. It also held public hearings in Melbourne, Sydney and Geelong. Whilst opinions varied considerably, there is generally widespread support from the core elements within TCF manufacturing for the PC’s preferred tariff option. Most are pleased at the general thrust and conduct of the inquiry by the PC.

The Department of Industry, Tourism and Resources (ITR) has also discussed specific issues with the major industry associations and several firms to gain greater knowledge of the needs to be addressed and the factors that could affect any future arrangements. These visits have been conducted on an informal and confidential basis and with the purpose of collecting information.

The major industry association, the TFIA (Council for Textile and Fashion Industries of Australia) and several of the larger firms have also regularly lobbied the Government with their views on what arrangements should be put in place post 2005.

**Recommended option**

The recommended option comprises a package of measures incorporating several of the options analysed above. Overall, this approach is similar to the PC’s preferred options in that it seeks to provide an orderly reduction in tariffs, build on current arrangements to ease the pain of adjustment and assist firms capture new
opportunities. The modifications and additions are intended to provide extra support for those clothing and finished textiles firms facing greater tariff reductions and to reduce administrative complexity and confusion.

- Step down tariffs for most items to 5% by 2010 with clothing and certain finished textiles to be reduced to 10% at this date and then 5% in 2015.

- Extend the current SIP scheme, to be known as the TCF Post-2005 (SIP) Scheme, with modifications to simplify delivery, to include new specific purpose measures and to meet the needs of particular target groups:
  - a five year program to 2011 for all eligible TCF activities subsidising a firm’s expenditure on investment and innovation (leather and technical textiles firms only being eligible for the investment component);
  - a further five year program to 2016 for clothing and certain finished textiles subsidising eligible expenditure on innovation and investment;
  - modifications to include changes to the rebate rate to 40% for investment and 80% for innovation; branding to be treated as investment; the removal of subsidy for value add; and additional support for relevant IT for clothing and finished textiles firms only;
  - restructuring initiatives to be included in the structural adjustment initiative;
  - thresholds, caps and modulation factors will be used to keep the scheme within an overall envelope of $600 million over 10 years ($500 million for the first five years and $100 million for the second five years).

- Establish a ten year competitive grants scheme for small firms who cannot benefit from the extended SIP scheme, to be known as the TCF Small Business Program. This would provide support for projects by small firms that do not meet the SIP eligible expenditure levels and which would contribute to their improved international competitiveness in ways other than through investment and innovation. The total funding for this would be $25 million ($2.5 million pa) and would be part of the appropriation for the extended SIP.

- Establish a five year competitive grants scheme for the support of major capital investments to strengthen the local supply chain for the clothing and finished textiles sector. The scheme would be open to companies in the sector (and related textile suppliers) not receiving benefits through SIP. Projects would need to demonstrate that the investment would enhance the competitiveness of local clothing and finished textile manufacturing. Maximum subsidies would be set at a lower level than the SIP program. The total funding for this would be $20 million ($4 million pa) with the program running from 2010 to 2015.

- Set up an import credit scheme, to be known as the Product Diversification Scheme, for clothing and finished textiles manufacturers for imports of finished clothing, linked to additional production to be worth the equivalent of $50 million revenue forgone over a ten period.
• Continue the current EOAP scheme until 2010, valued at approximately $27 million in revenue forgone.

• Establish a structural adjustment fund, to be known as the Structural Adjustment Program, with a total appropriation of $50 million years over ten years to fund specific initiatives for structural adjustment for restructuring of firms in both metropolitan and regional areas. This will be a discretionary scheme over ten years with sufficient flexibility to cope with a range of adjustment needs.

The recommended timetable for the tariff reductions will bring about an orderly decline in the tariff rates to that generally applying. By allowing an additional five years for clothing and certain finished textiles to reach 5%, this will give these firms the necessary breathing space to adjust to a substantially larger reduction than that facing other products.

Legislat ing these changes now will demonstrate Australia’s commitment to achieving its APEC commitment to “free and open trade” without causing unnecessary pain to a particularly vulnerable part of the economy. Stepping down rather than phasing down the rates will be more acceptable to industry as it provides extra time for adjustment and will be simpler to implement.

While the consumer benefit for this approach will be less than if achieved over a five year period, it will still lead to lower prices and increased choice.

Extending the current SIP scheme with modifications for a further five years to 2011 is an efficient and effective use of resources. After the initial bedding down, firms are now familiar with SIP’s objectives and overall approach. Firms have developed good relations with AusIndustry and have a high level of trust in the way it delivers the program. This should provide a relatively “seamless” transition with firms continuing to benefit without interruption.

The funding envelope recommended for the SIP extension and for the small firm competitive grants scheme is $600 million over 10 years. It comprises $100 million per annum for the first five years to 2011 and $20 million per annum for the next five years to 2016. This would include $2.5 million each year over 10 years for the small firm element.

This amount is designed to ensure that there is sufficient incentive to firms to make the necessary changes. The amount of SIP grant paid to individual firms may be modulated from one year to the next to ensure that all firms receive comparable entitlements while keeping the total amount paid within the limits of the package. Caps and thresholds to calculate entitlements will also be used to ensure that no firm receive an excessive entitlement to the disadvantage of others and that the scheme still meets our obligations under WTO.

Continued support for investment and innovation recognises their importance in helping firms capture and consolidate new market opportunities.
Removing value added grants will eliminate a major source of confusion amongst applicants over policy intent while reducing firms’ record keeping and compliance costs. The effective reduction in rates can be overcome by increasing the rebate to indicative rates of 40% for investment and 80% for innovation.

The options contain several features specially designed to support and encourage clothing manufacturers. These include support for relevant IT as part of investment, the extension of the SIP scheme for a further five years and an import credit scheme. This approach has been taken because:

- clothing firms along with those manufacturing certain finished textiles face a significantly larger tariff reduction than all other TCF items;
- clothing firms are the largest employer of TCF workers who, because of their personal characteristics, are likely to experience difficulty in finding alternative employment if they lose their job;
- competition in the clothing market is particularly intense and imports are continually increasing. Local manufacturers can only survive if they develop very different approaches to their businesses and products; and
- the measures provide a means of cushioning firms and workers against the severity of these changes by slowing down the adjustment process or encouraging firms to adapt.

The competitive grants scheme addresses the discrimination that some small firms can experience under the SIP arrangements. It will support a new range of activities that are particularly relevant to these firms and may also provide opportunities for groups to work together to develop innovative solutions. The administrative costs will be minimised by delivering it through AusIndustry in close proximity with the extended SIP.

A similar rationale exists for improving the supply chain of the clothing and finished textiles sectors as they face continuing adjustment pressure beyond 2010. Accordingly a supply chain program to help strengthen the linkages between suppliers and the clothing and finished textiles sector would be warranted.

The proposed structural adjustment scheme will be a flexible and responsive way to meet the diverse and changing needs of the sector as it responds to the move to a lower tariff environment. Between now and 2010, there will be many factors affecting the competitive dynamics in this sector which make it impossible to predict the future needs of the sector and its workers. These include Australia’s current and future multilateral and bilateral negotiations, the growing significance of China and other developing countries as TCF producers, the retail strategies of the sector’s major customers, the breakdown of traditional supply chains and the growth of new linkages outside the TCF sector, changing technology and increasing importance of service provision and differentiated products.

The PC recommended that restructuring initiatives should be extended to metropolitan areas in recognition of the sector’s changing geographical distribution. Much of the restructuring that has already taken place has involved the move away from rural based plants and consolidation in larger regional cities or outer metropolitan areas. The Government recognises that there are potentially pockets of dislocation which can
cause localised pain to vulnerable areas and has agreed that support should be available for structural adjustment whether labour market or regional.

**Implementation and review strategy**

**Tariff reductions**
The two step tariff reduction in 2010 and 2015 will be incorporated into legislation as soon as possible to demonstrate Australia’s desire to meet its APEC commitments under the Bogor Agreement. The legislated changes will be linked to other legislation to establish the extended SIP scheme and other elements of the package.

**Extension of the modified SIP Scheme (TCF Post-2005 (SIP) Scheme)**
New legislation will be required to implement the TCF Post-2005 (SIP) scheme. This legislation will establish clear policy objectives for the scheme, create the funding appropriation for the full ten years, provide the ministerial authority for establishing the scheme and make the initiative conditional upon the proposed tariff changes. The scheme will be implemented by AusIndustry and will build upon the current SIP delivery team and management information systems within its Victorian office.

**Competitive grants scheme for small firms/supply chain**
This initiative will be administered and delivered by AusIndustry. The small business funding will be part of the legislated appropriation for the extended SIP. The supply chain program will have its own funding and be administered by AusIndustry.

**Import Credit Scheme (Product Diversification Scheme)**
The Product Diversification Scheme will be implemented and delivered by AusIndustry. The Australian Customs Service will establish information systems to monitor entitlements.

**EOAP**
This will continue to be delivered as present through AusIndustry.

**Structural Adjustment Fund (Structural Adjustment Program)**
Funding for this Program will be provided for as an appropriation to the Department of Industry, Tourism and Resources (ITR).

**Review Strategy**
The purpose of the review strategy is to ensure that the policy intent behind the measures is being consistently delivered; the measures remain appropriate and delivery is efficient and effective. It is not intended that there will be any further policy review to provide for further sector specific assistance to the TCF industry.

An independent evaluation of the package will be undertaken in 2011 and in 2016 to measure the results of the various initiatives. The 2011 review will also look at whether changes need to be made to ensure the program remains relevant for the next five years. Smaller mid term reviews will also be undertaken to examine delivery efficiency and effectiveness.
NOTES ON SECTIONS

Part 1 — Introduction

Section 1 — Short Title

1. This Section provides the short title of the Bill.

Section 2 — Commencement

2. This Section provides that Sections 1 – 3 of the Bill commence on the date of Royal Assent, while Schedule 1 commences immediately after the commencement of the Customs Tariff Amendment (Textile, Clothing and Footwear Post-2005 Arrangements) Act 2004.

Section 3 — Schedule(s)

3. This Section provides that an Act specified in a Schedule is amended or repealed as set out in the Schedule and that any other item in a Schedule has effect according to its terms.

Schedule 1 — Amendments

Item 1 — Section 3

4. This section provides a revised overview of the main provisions of the Act.

Item 2 — Section 4 (definition of claim)

5. This definition is repealed as a consequence of new section 7B.

Item 3 — Section 4 (definition of a grant)

6. This definition is repealed as a consequence of new section 7B

Item 4 — Section 4

7. This provides a definition of a key term to be used in the Bill.

Item 5 — Section 4 (paragraph (a) of the definition of scheme debt)

8. This is consequential on new Part 3A

Item 6 — Section 4 (paragraph (c) of the definition of scheme debt)
9. This is consequential on new Part 3A

**Item 7 — Section 4 (paragraph (d) of the definition of scheme debt)**

10. This is consequential on new Part 3A

**Item 8 — Section 4**

11. This is consequential on new Part 3A

**Item 9 — Before Division 1 of Part 2**

12. This is consequential on new Part 3A and includes a simplified outline of this Part and definitions and interpretations of key terms used in the Bill.

**Item 10 — After Division 4 of Part 2**


14. **Section 18A — Conditional grants.** This Section provides that the TCF (SIP) scheme may make provision for the payment of a grant to be subject to certain conditions, whether conditions precedent or conditions subsequent. Conditional grants will facilitate the implementation of a robust and transparent compliance monitoring process to the extent necessary to ensure that the monies paid by the Commonwealth are used for the purpose specified by Parliament and not for other purposes.

15. In addition, under this division an entity receiving a conditional grant has been provided with safeguards ensuring that: an authorised officer undertaking monitoring of compliance has qualifications suitable for task; is able to produce identification that he or she is an authorised officer; and provides for compensation should electronic equipment operated by an authorised officer or expert for the purpose of compliance monitoring be damaged.

16. Subsection 18A(2) provides for a grant to be paid subject to the condition that an entity comply with any notice issued under section 38 of the Act.

17. Subsection 18A(3) provides for a grant to be paid subject to the condition that a false or misleading statement, information, evidence or document is not made by or produced by, or on behalf of, an entity in relation to a claim for a grant and/or compliance with a notice issued under section 38.

18. Subsection 18A(4) provides for a grant to be paid subject to the condition that the entity will allow authorised officers of the Department and authorised officers of an authorised Commonwealth contractor reasonable access to business premises specified by the Secretary at any reasonable time of a business day for the purpose of monitoring compliance with other conditions that a grant is subject to.

19. Paragraph’s 18A(4)(d)-(g) also provide that an entity will allow authorised officers to inspect and search premises, operate electronic equipment and make copies of documents in hard copy or electronic in connection with the compliance monitoring activity.
20. Notwithstanding subsections 18A(2)-(4) an entity cannot be compelled to comply with the statutory conditions. However, if an entity does not comply the Commonwealth may recover any grant paid that was subject to these conditions. Section 43 deals with the recovery of a conditional grant if there has been a breach of conditions.

21. Subsection 18A(5) provides that the Secretary may specify a business premises to be accessed for the purpose of monitoring compliance.

22. Subsections 18A(6)-(7) provides that the Secretary may authorise a suitably qualified APS employee in the Department and appoint a suitably qualified employee of an authorised Commonwealth contractor as an authorised employee for the purpose of undertaking the monitoring of compliance as outlined in this Division.

23. For the purpose of subsection 18A(6) a suitably qualified APS employee is an employee who has responsibility for monitoring compliance under the TCF (SIP) Scheme and has been provided with the necessary training to ensure that he or she is able to competently carry out this activity.

24. For the purpose of subsection 18A(7) a suitably qualified employee of an authorised Commonwealth contractor is an employee that has the level of training and any qualifications necessary to ensure that he or she is able to competently carry out this activity.

25. Subsection 18A(8) defines an authorised Commonwealth contractor and business day for the purpose of this section.

26. *Section 18B – Operation of electronic equipment by authorised officers.* This section sets out the requirements under which an authorised officer, who has obtained access to premises for the purpose of monitoring compliance may operate equipment or other facilities and remove documents relevant to that monitoring.

27. *Section 18C – Operation of electronic equipment by experts.* This section sets out the conditions under which an authorised officer and an expert authorised employee may operate electronic equipment to produce documents in hard form, transfer documents onto electronic storage devices and remove those documents, if the authorised officer has reasonable grounds to believe those documents are relevant for the purpose of monitoring compliance.

28. Subsection 18(C)(6) provides that an authorised employee under this provision is deemed to be a person performing the services for the Commonwealth for the purpose of application of subsection 3(1) to section 70 of the *Crimes Act 1914* relating to a Commonwealth officer.

29. *Section 18D – Pre-condition to operating electronic equipment.* This section establishes the pre-condition that a person may operate electronic equipment found on premises subject to monitoring of compliance only if he or she believes on reasonable grounds that the operation of the equipment can be undertaken without causing damage to the equipment.

30. *Section 18E – Compensation for damage to electronic equipment.* This section sets out the conditions under which reasonable compensation is to be paid to an entity should electronic equipment being operated as outlined in sections 18A-18C be damaged or data or programs associated with the use of that equipment be
corrupted or damaged because an authorised officer or expert exercised insufficient care in the use of that equipment.

31. If agreement cannot be reached between the entity and the Commonwealth, the entity may institute proceedings in the Federal Court, subsection 18E(3).

32. In determining the amount of compensation that may be payable, consideration is to be given as to whether or not the entity provided suitable warnings or guidance on the operation of the equipment, subsection 18E(4).

33. Section 18F – Identity Cards. This section requires the Secretary to issue an authorised officer with an identity card that is in a form prescribed by the regulations and contains a recent photograph of the authorised officer.

34. Subsections 18F(3) and (4) prescribes that an offence has been committed if the person issued the identity card ceases to be an authorised officer and does not return the card to the Secretary as soon as practicable, unless the card is lost or destroyed, subsection 18F(5).

35. Subsection 18F(6) requires an authorised officer to carry his or her identity card at all times when exercising powers as an authorised officer. If the officer is unable to produce the identity card on request the authorised officer is not entitled to exercise any powers referred to under this division, subsection 18F(7).

Item 11 — Application—conditional grants

36. Division 4A applies in relation to grants paid on or after the commencement of this Bill.

Item 12 — After Part 3


Division 1—Preliminary

37. Section 37A – Object of Part and simplified outline. This section sets out the objective of the Part, subsection 37A(1) and provides an overview of the main provisions, subsection 37A(2).

38. Section 37B – Definitions. This section provides definitions and interpretations of key terms used in Part 3A of the Bill.

Division 2—Formulation of TCF Post-2005 (SIP) scheme

39. Section 37C – TCF Post-2005 (SIP) scheme. This section provides the enabling power for the Minister to formulate the TCF Post-2005 (SIP) scheme, for the making of grants relating to the design for manufacture in Australia and/or manufacture in Australia and/or design in Australia for manufacture outside Australia, under a designated industry program, of eligible TCF products.

40. Section 37D – Caps. This section provides the total dollar ceiling for all grants paid under the TCF Post-2005 (SIP) scheme. The overall ceiling for the life of the scheme is $575 million, with a ceiling of $487.5 million for the 2005-2006 to
2009-2010 income years and $87.5 million for the 2010-2011 to 2014-2015 income years.

Division 3—General policy objectives

41. Section 37E—General policy objectives. This section sets out the policy objectives to be achieved under the scheme, namely sections 37F, 37G, 37H 37J and 37K.

42. Section 37F—2 types of grants. This section sets out the policy objectives in the TCF Post-2005 (SIP) scheme in relation to categories of grants under the scheme, namely:
   a. grants in respect of TCF capital investment expenditure; and
   b. grants in respect of TCF research and development expenditure.

1. Section 37G—Provisions relating to grants in respect of TCF capital investment expenditure. This section sets out the policy objective for the TCF Post-2005 (SIP) scheme under which grants in respect of TCF capital investment expenditure are to be made including: new TCF plant/building expenditure; expenditure on brand support for TCF products; and non-production related information technology expenditure.

2. This provision also provides that capital investment expenditure related to clothing and finished textile expenditure is eligible expenditure for the purpose of receiving a grant if incurred during any of the 2005-2006 to 2014-2015 income years.

3. Section 37H—Provisions relating to grants in respect of TCF research and development expenditure. This section sets out the policy objective for the TCF Post-2005 (SIP) scheme under which grants in respect of TCF research and development are to be made.

4. Paragraph 37H(1)(c) provides that TCF research and development expenditure related to clothing and finished textile expenditure is eligible expenditure for the purpose of receiving a grant if incurred during any of the 2005-2006 to 2014-2015 income years.

5. Paragraph 37H(2)(a) sets out the policy objective that leather and technical textile expenditure is not TCF research and development expenditure under the scheme.

6. Expenditure on obtaining industrial property rights may be expenditure on TCF research and development for the purpose of receiving a grant under the scheme, paragraph 37H(2)(b).

7. Section 37J—Grants to be made in arrears. This section sets out the policy objective that grants under the TCF Post-2005 (SIP) scheme cannot be made to an entity for expenditure incurred in respect of an income year unless the entity claims the grant after the end of the income year in which the expenditure was incurred.

8. Section 37K—Grants cap based on eligible revenue and eligible start-up investment amount. This section sets out the policy objective that the total grants payable to an entity must not exceed five per cent of an entity’s total eligible revenue in the preceding income year, unless the entity is in an eligible start-up
situation. Under the TCF Post-2005 (SIP) scheme eligible revenue will be based on the sales value of TCF products that are considered eligible under the scheme, except for entities in start-up situations which would have their grants capped at 15 per cent of the eligible start-up investment amount. Eligible revenue, start-up situations, and eligible start-up investment amounts will be defined in the scheme.

9. A grant becomes payable to an entity when a determination is made under the scheme that the entity is entitled to be paid a grant, subsection 37K(5).

**Division 4—Registration for the purpose of the scheme**

10. *Section 37L – Registration for the purpose of the scheme.* This section provides that the TCF Post-2005 (SIP) scheme may impose requirements for registration under the scheme in order to claim a grant including; a statement on an entity’s future financial viability, that an application for registration be accompanied by specified information and that the scheme may provide for a registration fee.

11. Subsection 37L(3) provides that the scheme may impose consequences on an entity that does not comply with a particular arrangement relating to registration, including ineligibility for a grant, grant eligibility restricted or reduced or the timing of the payment of a grant deferred.

**Division 5—Strategic business plans and accounts**

12. *Section 37M – Strategic business plans.* This section provides that an entity is not eligible for a grant unless it has complied with any requirement under the TCF Post-2005 (SIP) scheme in relation to the content and submission of a strategic business plan and the variation of any such plan.

13. *Section 37N – Accounts.* This section provides that an entity is not eligible for a grant unless it has complied with any requirements under the TCF Post-2005 (SIP) scheme in relation to the submission of audited or unaudited accounts or financial statements.

**Division 6—Conditional grants**

14. *Section 37P – Conditional grants.* This section provides that the TCF Post-2005 (SIP) scheme may make provision for the payment of a grant to be subject to certain conditions, whether conditions precedent or conditions subsequent. Conditional grants will facilitate the implementation of a robust and transparent compliance monitoring process to the extent necessary to ensure that the monies paid by the Commonwealth are used for the purpose specified by Parliament and not for other purposes.

15. In addition, under this division an entity receiving a conditional grant has been provided with safeguards ensuring that: an authorised officer undertaking monitoring of compliance has qualifications suitable for task; is able to produce identification that he or she is an authorised officer; and provides for compensation should electronic equipment operated by an authorised officer or expert for the purpose of compliance monitoring be damaged.
16. Subsection 37P(2) provides for a grant to be paid subject to the condition that an entity comply with any notice issued under section 38 of the Act.

17. Subsection 37P(3) provides for a grant to be paid subject to the condition that a false or misleading statement, information, evidence or document is not made by or produced by, or on behalf of, an entity in relation to a claim for a grant and/or compliance with a notice issued under section 38.

18. Subsection 37P(4) provides for a grant to be paid subject to the condition that the entity will allow authorised officers of the Department and authorised officers of an authorised Commonwealth contractor reasonable access to business premises specified by the Secretary at any reasonable time of a business day for the purpose of monitoring compliance with other conditions that a grant is subject to.

19. Paragraph’s 37P(4)(d)-(g) also provide that an entity will allow authorised officers to inspect and search premises, operate electronic equipment and make copies of documents in hard copy or electronic in connection with the compliance monitoring activity.

20. Notwithstanding subsections 37P(2)-(4) an entity cannot be compelled to comply with the statutory conditions. However, if an entity does not comply the Commonwealth may recover any grant paid that was subject to these conditions.

21. Subsection 37P(5) sets out the power of the Secretary to specify a business premises to be accessed for the purpose of monitoring compliance.

22. Subsections 37P(6)-(7) set out the power of the Secretary to authorise a suitably qualified APS employee in the Department and appoint a suitably qualified employee of an authorised Commonwealth contractor as an authorised employee for the purpose of undertaking the monitoring of compliance as outlined in this Division.

23. For the purpose of subsection 37P(6) a suitably qualified APS employee is an employee who has responsibility for monitoring compliance under the TCF Post-2005 (SIP) Scheme and has been provided with the necessary training to ensure that he or she is able to competently carry out this activity.

24. For the purpose of subsection 37P(7) a suitably qualified employee of an authorised Commonwealth contractor is an employee that has the level of training and qualification necessary to ensure that he or she is able to competently carry out this activity.

25. Subsection 37P(8) defines an authorised Commonwealth contractor and business day for the purpose of this section.

26. Section 37Q – Operation of electronic equipment by authorised officers. This section sets out the requirements under which, an authorised officer, who has obtained access to premises for the purpose of monitoring compliance may operate and remove documents relevant to that monitoring.

27. Section 37R – Operation of electronic equipment by experts. This section sets out the conditions under which, an authorised officer and an expert authorised employee may operate electronic equipment to produce documents in hard form, transfer documents onto electronic storage devices and remove those documents,
if the authorised officer has reasonable grounds to believe those documents are relevant for the purpose of monitoring compliance.

28. Subsection 37R(6) provides that an authorised employee under this provision is deemed to be a person performing the services for the Commonwealth for the purpose of application of subsection 3(1) of section 70 of the Crimes Act 1914 relating to a Commonwealth officer.

29. **Section 37S – Pre-condition to operating electronic equipment.** This section establishes the pre-condition that a person may only operate electronic equipment found on premises subject to monitoring of compliance, only if he or she believes on reasonable grounds that the operation of the equipment can be undertaken without causing damage to the equipment.

30. **Section 37T – Compensation for damage to electronic equipment.** This section sets out the conditions under which reasonable compensation is to be paid to an entity should electronic equipment being operated as outlined in sections 37P-37R be damaged or data or programs associated with the use of that equipment be corrupted or damaged because an authorised officer or expert exercised insufficient care in the use of that equipment.

31. If agreement cannot be reached between the entity and the Commonwealth, the entity may institute proceedings in the Federal Court, subsection 37T(3).

32. In determining the amount of compensation that may be payable, consideration is to be given as to whether or not the entity provided suitable warnings or guidance on the operation of the equipment, subsection 37T(4).

33. **Section 37U – Identity Cards.** This section requires the Secretary to issue an authorised officer with an identity card that is in a form prescribed by the regulations and contains a recent photograph of the authorised officer.

34. Subsections 37U(3) and (4) prescribe that an offence has been committed if the person issued the identity card ceases to be an authorised officer and does not return the card to the Secretary as soon as practicable, unless the card is lost or destroyed, subsection 18F(5).

35. Subsection 37U(6) requires an authorised officer to carry his or her identity card at all times when exercising powers as an authorised officer. If the officer is unable to produce the identity card on request the authorised officer is not entitled to exercise any powers referred to under this division, subsection 37U(7).

**Division 7—Other matters relating to the scheme**

36. **Section 37V – Advances on account of grants.** This section provides that the TCF Post-2005 (SIP) scheme may provide for advances on account of grants to be paid to entities eligible to receive a grant under the scheme. This will enable early part payment of a grant in an income year subsequent to that in which expenditure has been incurred, pending the entity completing the financial compliance requirements of the scheme.

37. Subsection 37V(2) provides that if an entity receives, by way of an advance on account of a grant, an amount that exceeds the grant then the entity is liable to repay the Commonwealth the excess.
38. **Section 37W – Scheme may confer administrative powers on the Secretary.** This section enables the TCF Post-2005 (SIP) scheme to provide discretionary power to the Secretary to make administrative decisions, including the power to determine the amount of claims for grants.

39. **Section 37X – Reconsideration and review of decisions.** The section requires the TCF Post-2005 (SIP) scheme to provide a mechanism for an entity dissatisfied with a decision in relation to a grant claimed under the scheme to seek a review of that decision.

40. Under this section the Secretary is required to reconsider the decision and confirm, revoke or vary the decision, paragraph 37X(2)(b).

41. Subsection 37X(3) provides that if the Secretary is taken to have confirmed a decision after a specified period the scheme must detail the prescribed time for an entity to make an application for the purpose of review of the original decision, now confirmed, for the purpose of section 29 of the *Administrative Appeals Tribunal Act 1975*.

42. **Section 37Y – Guarantees relating to payment of scheme debts.** This section prescribes that the TCF Post-2005 (SIP) scheme may provide that an entity’s eligibility for a grant under the scheme be conditional on receipt of a guarantee from another entity relating to any scheme debts owed by the former entity. This particularly relates to subsidiaries.

43. **Section 37Z – Non-arm’s length transactions.** This section enables the TCF Post-2005 (SIP) scheme to provide that where an amount of expenditure is derived from a non-arm’s length transaction, it may be deemed to be the amount that could have been reasonably expected to have been incurred had the transaction been a normal arm’s length transaction.

44. **Section 37ZA – Grants and advances to be inalienable.** This section enables the TCF Post-2005 (SIP) scheme to provide for grants, including advances on account of grants, to be inalienable except with the approval of the Secretary.

45. **Section 37ZB – Other matters.** This section prescribes that the TCF Post-2005 (SIP) scheme may provide for various other matters, including: the making of claims for grants; the imposition of time limits for lodging a claim; the need for audited statements verifying expenditure to accompany a claim; the apportionment of expenditure; the adjustment of eligibility for grants in relation to the transfer of the whole or part of a business; and the time at which a grant becomes payable.

46. **Section 37ZC – Ancillary or incidental provisions.** This section enables the Minister to provide for any ancillary or incidental provisions in the TCF Post-2005 (SIP) scheme as appropriate.

47. **Section 37ZD – Scheme-making power not limited.** This section ensures that the general powers under Section 37C to provide for matters under the TCF Post-2005 (SIP) scheme are not limited to those matters specified in Sections 37D to 37ZC.

48. **Section 37ZE – Fee must not amount to taxation.** This section provides that the amount of a fee under the TCF Post-2005 (SIP) scheme must not be such as to amount to taxation.
49. **Section 37ZF – Variation of scheme.** This section allows the TCF Post-2005 (SIP) scheme to be varied but not revoke the scheme in accordance with subsection 33(3) of the *Acts Interpretation Act 1901*. Subsection 37ZF(2) does not limit the application of subsection 33(3) of the *Acts Interpretation Act 1901* to other instruments under this Act.

50. **Section 37ZG – Scheme to be a disallowable instrument.** This section provides that the TCF Post-2005 (SIP) scheme is a disallowable instrument for the purpose of section 46A of the *Acts Interpretation Act 1901*.

51. **Section 37ZH – Appropriation.** This section provides for grants paid under the TCF Post-2005 (SIP) scheme to be drawn from the Consolidated Revenue Fund.

52. **Section 37ZI – Publication of grant totals.** This section requires the Minister to publish, as soon as practicable, after the end of each of the 2006-2007 to 2015-2016 financial years the name of each entity paid a grant and the total of any grant, including advances on account of grants, received by the entity during the particular financial year.

**Part 3B—TCF Small Business Program**

53. **Section 37ZJ – TCF Small Business Program.** The objective of this section is to fund the TCF Small Business Program. The Department is responsible for administering the program including: the recipients of any payments (including the establishment of an eligibility criteria under which payments are made); the amount and timing of payments; and the terms and conditions of payments.

54. Subsection 37ZJ(3) appropriates $25 million from the Consolidated Revenue Fund for the purpose of payments under the program.

**Item 13 — Paragraph 38(1)(a).**

55. This is consequential on new Part 3A.

**Item 14 — At the end of paragraph 38(1)(b)**

56. This is consequential on new Part 3A.

**Item 15 — Section 43**

57. New section 43 – Recovery of conditional grants. This new section is consequential on new Part 3A and makes it clear that, if a grant under the TCF (SIP) scheme or the TCF Post-2005 (SIP) scheme is paid subject to a condition and that condition is not fulfilled the Commonwealth may recover all or part of the grant paid.

**Item 16 — Section 46**

58. This is consequential on new Part 3A and makes it clear that a scheme debt incurred in relation to the TCF (SIP) scheme may be recovered by way of set-off from one or more grants payable under the TCF Post-2005 (SIP) scheme.
Item 17 — At the end of section 46

59. This is consequential on new Part 3A.

Item 18 — At the end of subparagraph 49(c)(i)

60. This is consequential on new Part 3A.

Item 19 — At the end of subsection 52(1)

61. This is consequential on new Part 3A.

Item 20 — After subsection 52(1).

62. New subsection 52(1)(1A) is consequential on new sections 18A and 37P. This subsection makes it clear that the Secretary is not able to delegate his power to authorise an APS employee or an employee of an approved Commonwealth contractor as an authorised officer for the purpose of monitoring compliance with conditions, as set out in sections 18A to 18D and 37P to 37S.

Item 21 — After subsection 52(3)

63. This is consequential on new Part 3A.

Item 22 — Subsection 52(4)

64. This is consequential on new Part 3A.

Item 23 — Section 53

65. This is consequential on new Part 3A.

Item 24 — Subsection 55(3)

66. This is consequential on new Part 3A.