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Response to: "Building Innovative Capacity" Review of the Australian Textile, Clothing and Footwear Industries, 2008

Submitting Agency

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Declaration of Interests and Affiliations

The Technical Textiles and Nonwoven Association Inc. (TTNA) is an independent body, funded by fees paid through voluntary membership. It represents the Australian technical and nonwoven textile industry. This submission provides information that is reflective of the TTNA members' views and is intended to assist the review of the TCF Industry.

Further personal interests and affiliations for each member of the TTNA Board are provided in the following table.

Mr Rod McKenna TTNA Review Representative	Managing Director, Double-T Innovations Pty Ltd 425 Smith Street, ALBURY NSW 2640 <ul style="list-style-type: none"> • Over 20 years experience in the technical textiles industry, including product development, sales and marketing, export development and business management.
Mr Robert Bell, Chair, TTNA	Technical Manager, Madison Filter Pty Ltd 36-40 Graham Road, HIGHETT VIC 3190 Initially a textile designer and technologist in the UK, leading to the position of Finishing Manager with a leading manufacturer in Geelong. <ul style="list-style-type: none"> • Currently an active member of the Clear Edge Global RandD Circle and runs the Centre of Excellence for Enabling Technologies for the group • Degree in Textile Design and Technology and Industrial • Management Chair of the TTNA Events Committee
Mr Michael Gerakios Deputy-Chair, TTNA	General Manager - Industrial Process Technologies Division, Albany International Locked Bag 6 Gosford NSW 2250

	<ul style="list-style-type: none"> • General Manager, Global Liquid and Dry Filtration, Albany International • President of the Air Pollution Control Equipment Manufacturers' Association (APCEMA) • Bachelor of Chemical Engineering at University of New South Wales • Pulp and Paper Management Certificate at University of Maine, USA
Dr Floreana Coman Treasurer, TTNA	<p>Fabrics & Composites Science & Technologies 61-63 Queensberry Street, SOUTH CARLTON VIC 3053</p> <ul style="list-style-type: none"> • PhD in Composites from RMIT, Department of Aerospace and Manufacturing Systems • Nominated in the Editorial Board of the international Journal of Industrial Textiles in 2005 <p>Particular interests in connecting various disciplines for the development of multifunctional composites & new materials.</p>
Dr Peter Lamb Secretary, TTNA	<p>Research Fellow, Centre for Material and Fibre Innovation, GTP Building, Deakin University, Geelong Technology Precinct, Pigdons Road, WAURN PONDS VIC 3217</p> <ul style="list-style-type: none"> • B.Sc(Hons), M.Sc in Physics from Uni. of Melbourne • D.Phil in Elementary Particle Physics, Uni. of Oxford • 27 years in RandD with CSIRO • Member Australian Acoustical Society, Australian Institute of Physics • Deputy Director Tournament of Minds (Vic.) Inc.
Mr Michael Coates,	<p>Managing Director and Director of Product Engineering, INC Corporation Pty Ltd 63 South Park Drive DANDENONG SOUTH VIC 3175 Bachelor of Engineering (Materials), Monash University. Founded INC Corporation, in 1977</p> <ul style="list-style-type: none"> • Member of Victorian Manufacturing Hall of Fame <ul style="list-style-type: none"> - Winner, SAE Australasia, Gold Engineering Excellence Award. - Certificate of Achievement for Innovation - AusIndustry - President - Otways Ranges Environmental Network • Past Member, AusIndustry, Best Financial Practices Committee • Member Australian Acoustical Society
Mr Peter McDonald	<p>Managing Director, Ramsay McDonald Pty Ltd 22 Concorde Drive, KEILOR PARK VIC 3043</p> <ul style="list-style-type: none"> • Board Member of TexSkill • Fellow Australian Institute of Company Directors
Mr Tim Head	<p>Business Manager, CSIRO Textile and Fibre Technology PO Box BELMONT VIC 3216</p>

**Technical Textiles and Nonwoven Association Response to:
"Building Innovative Capacity"
Review of the Australian Textile, Clothing and Footwear Industries, 2008**

The TTNA supports the broad thrust and objectives of the review of the Australian TCF industry undertaken by Professor Roy Green "Building Innovative Capacity". However a global perspective and stable investment environment is required to achieve a sustainable and competitive industry, and accordingly an holistic approach to future policy – these aims form the basis of the TTNA's response to the TCF review.

Professor Green's Recommendations

TCF review recommendation 1: *The approach of public policy to the development of Australia's TCF industries should take the opportunity of this Review and the wider Review of the National Innovation System to manage a shift in the organising principle of industry assistance from structural adjustment to a new focus on building innovative capability at the level of the enterprise and workplace. It is recommended that a new 'TCF Innovation Assistance Package 2009–2015' be introduced with a budget of \$250 million.*

TTNA response to TCF review recommendation 1: The TTNA **supports** the strategy to stimulate investment through the proposed TCF innovation assistance package 2009 - 2015 and the shift in principle of industry assistance from one of structural adjustment to building innovative capability based on contestable funding. However funding should be based on the needs of a given sector. For the TTNA, capital expenditure incentives should be included for this technology intensive sector.

Given that on-going investment in technology is integral to innovation, the TTNA anticipates that new capital expenditure will be initiated by the adoption of the following proposals for future TCF industry investment programs.

However, the on-going effects of structural adjustment coupled with the "competitive pressures" identified in the report and the unexpected and debilitating impact of the global financial crisis on the Australian TCF industry are indisputable. Accordingly we advocate an increase in proposed funding to at least \$650million for the period 2009-2015 and the implementation of our broader view of the review's recommendations. A funding level of \$130million per year for the period 2010-2015 reflects TCF industry historical investment levels under SIP. Funding support has been limited by a cap using modulation, at 0.75% average forecast through 2010, therefore $\$97.5/0.75 = \$130\text{million} \times 5 = \650million . A table summarising this calculation can be found on the final page of this document.

TCF review recommendation 2: *The definition of the TCF industries, for the purpose of future public policy and greater connectivity among TCF firms and organisations, should be modified and expanded to encompass a broader range of activities in textiles, fashion and accessories in the context of a TCF Innovation System that is driven by more collaborative approaches to design, research, technology, branding and supply chain management.*

TTNA response to TCF review recommendation 2: The TTNA **supports** an expansion of the TCF sector to encompass a broader range of activities in textiles, fashion and accessories for the purposes of future public policy and assistance. We advocate that the definition be determined by the proposed Innovation Council and that Australian based manufacturing, financial viability and industry validity be determining eligibility factors.

TCF review recommendation 3: *The scheduled tariff reductions for the TCF industries to 2015 should be allowed to take their course, as it is widely recognised that tariff protection is a blunt instrument for the promotion of innovative and competitive capability at the enterprise level and can in any case have only marginal impact in the context of large exchange-rate movements. On the basis of evidence provided to the Review, it is recommended that the emphasis of future policy should instead be on well-designed industry assistance measures.*

TTNA response to TCF review recommendation 3: Unilateral tariff cuts should not occur in the absence of "well designed industry assistance". The TTNA **supports** continuation of the planned tariff reduction schedule to 2015 conditional on the introduction of the proposed 'TCF Innovation Assistance Package 2009–2015' and for the Product Diversification Scheme (PDS) and Supply Chain Opportunities Program (SOP - proposed under previous legislation) being maintained.

We do not support the removal of the PDS as it adversely influences TCF manufacturers as the duty concessions are applied to inputs. Cancelling this scheme therefore increases the cost of manufacture and erodes competitiveness. The recent dramatic decrease in the value of the Australian dollar and continued volatility in global raw material prices has increased manufacturing costs significantly in an environment where the ability for manufacturers to pass these costs on is non-existent.

- We advocate that the Product Diversification Scheme (cost \$25million) be an additional component of the review's proposed investment package.
- We advocate that the Supply Chain Opportunities Program be maintained (cost \$20million) and that it is additional to the review's proposed investment package.
- Further talks with China concerning a Free Trade Agreement should be conducted within the context of China's current human rights and environmental issues. To argue for an FTA with an international competitor that will not abide by the rules we impose upon our own manufacturers, eg. by way of the proposed "Quality Mark" which includes ethical considerations, will impose further unnecessary pressure on the Australian TCF sector.

TCF review recommendation 4: *A TCF Innovation Council should be established, with funding of \$12 million to commence in 2009, as one of the proposed sectoral innovation councils with the task of advising the Australian Government on key priorities for the TCF industries in the context of the broader National Innovation System. The TCF Innovation Council would include appropriate representation from TCF industry stakeholder groups.*

TTNA response to TCF review recommendation 4: The TTNA **supports** the establishment of a TCF Innovation Council to commence in 2009 with a budget of \$12million for the period 2009-2015, and which must include appropriate representation from all TCF industry stakeholder groups.

The TTNA has a proven and successful history of connecting with all levels and elements of the TCF sector. Indeed, it was formed in 2000 in response to the findings of the TCF Action Agenda which recommended a forum be established for the dissemination of both Australian and international research, development and innovation in fibre and textile manufacturing, processes and education in Australia. The TTNA was established by industry as a formal network to satisfy this need. The purpose and powers of the TTNA clearly reflect this. Its mission is to advance, represent and foster the development of the industry and particularly to:

- provide a forum for discussion of issues facing the industry;
- encourage an internationally competitive and innovative industry;
- form collaborative links with other industry and business organisations, including education and research and development organisations;
- foster the growth of an appropriately skilled and sustainable workforce in the industry through world class training;
- develop and support networks of communication within the industry;
- compile statistical information on revenue, exports, research and development of the industry;
- promote the industry both locally and internationally;
- encourage research and development and innovation in the Industry;
- represent the interests of the industry to government bodies.

The TTNA has adopted a whole of industry approach to create and nurture networks that create value, as evidenced by the formalisation of relationships with other TCF representative bodies including Composites Australia, RMIT and the Australian Canvas & Synthetic Products Association (ACASPA) in Australia and the International Nonwovens Association (in North America), the European Nonwovens Association (EDANA), the China Nonwovens & Industrial Textiles Association (CNITA) overseas to broaden the scope of industry development. Therefore, the TTNA is clearly the most appropriate and well connected organisation to manage the TCF Innovation Council.

TCF review recommendation 5: *A new \$200 million TCF Innovation Capability Program (TCF ICP) should be introduced to support the development of innovative capability in the TCF industries at the enterprise and workplace level, with an allocation of at least \$15 million for small businesses. This program would supersede current assistance measures in the final transitional period of tariff reductions—2010 to 2015—and make funding available to individual applicants or consortia on a contestable basis.*

TTNA response to TCF review recommendation 5. The TTNA **supports** the introduction of a TCF Innovation Capability Program, [TCF ICP] and that funding be available to individual applicants or consortia on a contestable basis. However, we propose the following amendments:

- The TTNA advocates an increase in funding for the TCF ICP to \$650million for the period 2009-2015 and the implementation of our broadened view of the review's recommendations, (articulated in this document). The larger budget allocation will reflect the true cost of conducting research, development and innovation in the ever advancing, challenging, and highly competitive field of advanced, technology based textiles, in which Australia should be poised to pursue a dominant position.
- We propose that the previous allocation of \$15 million for small businesses be increased to \$25million at \$5million per year. This is in recognition of the pivotal contribution of SMEs to the Australian economy, (GDP and employment) particularly the TCF sector, Whilst the Review proposes \$15million to replace the \$12.5million previously allocated under Small Business Program, the TTNA believes this increase (\$0.5million/year) is not sufficient to encourage SME's to rise to the challenges of responding to the rapid changes occurring in global supply chains.
- We agree with the review proposal to maintain SAP funding at \$25million.
- The TTNA advocates the reinstatement of the Supply Chain Opportunities Program (SOP) that was designed to fund competitive grants to support major capital investment with a total funding of \$20million.

TCF review recommendation 6: *Eligibility criteria for the TCF ICP should include (1) value-adding to the Australian economy; (2) ethical production and supply chain standards; (3) additionality of program funding; (4) employee involvement in change projects; and (5) accountability for delivery of project aims, with dissemination of key learning outcomes.*

TTNA response to TCF review recommendation 6: The TTNA members are resolute in their support for Australian value-added activity. The TTNA therefore **welcomes** the proposed eligibility criteria for TCF ICP. Furthermore, we propose that the TCF Innovation Council must include Australian based manufacturing as a key eligibility criterion.

TCF review recommendation 7: *Operational criteria for the TCF ICP should be developed by the Australian Government on advice from the TCF Innovation Council in the following funding categories: (1) innovation, research and design capability; (2) collaboration, networks and supply chain participation; (3) accessing global market opportunities; (4) new business models and strategic repositioning; (5) high-performance work and management systems; (6) education, skills and employment services; and (7) environmentally sustainable and ethical practices.*

TTNA response to TCF review recommendation 7: The TTNA **supports** the recommendation conditional on the proposed Council being unbiased and truly representative of the Australian TCF industry and that TTNA is included as a participating member. In addition, capital expenditure should be a necessary pre-condition to accessing funding in these categories and that the definition of research be substantially similar, if not identical to that contained in s73B (1) of the *Income Tax Assessment Act 1936*, which is the "systematic, investigative and experimental activities that involve innovation or high levels of technical risk and are carried on for the purpose of acquiring new knowledge or creating new or improved materials, products, devices, processes or services".

TCF review recommendation 8: *While decisions on funding under the TCF ICP will be made by the Department of Innovation, Industry, Science and Research, the business advisory services of Enterprise Connect should be provided with additional funding to constitute both the primary access point for TCF firms and organisations and the focus of a nationally coordinated TCF Innovation Network.*

TTNA response to TCF review recommendation 8: The TTNA **supports** the recommendation to provide additional funding to Enterprise Connect to develop business advisory service specific to the TCF industries. This is conditional on the application of a separate budget allocation of \$5 million, over and above the ICP pool of funds which will maximise the economic benefit to the industry and will protect the viability of the proposed ICP program.

Whilst the TTNA advocates and exemplifies networking principles and was the original model for the TCF Technology Network, it strongly opposes any proposal for Enterprise Connect to "assist, merge with or absorb the existing Victorian-based TCF Technology Network to extend its operation to a national scale." The concept of developing a competing organisation using taxpayers' money (as was the case with the TCF Technology Network) where evidence based value and return on investment is not demonstrated is counterproductive. The establishment of any national TCF Technology Network should be based on a contestable funding application to DISR, taking advice from the TCF Innovation Council according to the same criteria expected of any individual, company or other networks.

TCF review recommendation 9: *A new Australian Ethical Quality Mark should be devised, with a budget allocation of \$8 million, to reflect the incorporation of defined ethical standards relating to labour conditions, animal welfare and environmental sustainability in TCF production and supply chains. This will enhance consumer choice and confer competitive advantage on firms that achieve certification.*

TTNA response to TCF review recommendation 9: For this initiative to have any effect, its value lies only in its recognition, endorsement and enforcement. For it to be successful, the introduction of the mark should be accompanied by a commitment from State and Federal governments to ensure that goods tendered for Australian government projects or for projects financed by said governments have the mark. In the absence of this commitment, the TTNA **opposes** the introduction of a new Australian Ethical Quality Mark and the budget allocation of \$8million as an array of certification programs/labels that provide information to the consumer already exist. The establishment of a new mark will ultimately undermine existing certification schemes and will lead to greater consumer confusion as evidenced by the use of seven (7) different certifiers for organic food. Additionally, in identifying appropriate standards, priority should be given to internationally recognised Standards if industry is to compete in the global market. Examples of existing schemes and which do not necessarily exclude other manufacturing sectors include:

- ISO9000 – Quality Management Systems

- ISO14000 – Environmental Management Systems
- Made in Australia labelling (the cost of this scheme at 0.1% of annual turnover should be tax deductible at a rate of 200% to foster support and encourage use by Australian manufacturing beyond the TCF industries)
- ISO26000 – Social Responsibility
- Oeko-tex standard
- Greenhouse Friendly™ (an Australian Government initiative)
- The Australian Carpet Classification Scheme
- TCFUA and industry sponsored programs including Homeworkers Code of Practice – "No Sweat Shop" label and the "FairWear" campaign.

TCF review recommendation 10: *A new Australian National Sizing Standard for clothing and footwear is long overdue and should be developed as a matter of urgency, with a funding allocation of \$5 million, to meet the changing needs of customers and ensure that Australian TCF firms and organisations are not placed at a competitive disadvantage.*

TTNA response to TCF review recommendation 10: The TTNA **opposes** the allocation of \$5million to an Australian National Sizing Standard for clothing and footwear on the grounds that any funding should be directed to working within the International Standards Organisation (ISO) to upgrade ISO9407:1991 - Shoe Sizes and international standardisation of EN13402 – Clothing.

- The TTNA questions the proposed allocation of \$5million to fund the cost of developing a National Sizing Standard and proposes the actual cost be budgeted for by Standards Australia within its existing programs.
- Consistency of information in global supply chains requires the adoption of globalised standards of practice that are internationally recognised.

TCF review recommendation 11: *Australian Government procurement policy should encompass capability building for Australian TCF firms and organisations so that they are in a better position to tender successfully for contracts both individually and in broader networks. In addition, consideration of value for money in tendering should take account of labour and environmental standards, as evidenced by the Australian Ethical Quality Mark. The Review notes and supports concern expressed about the US Berry Amendment, which excludes Australian TCF firms from the US defense apparel procurement market.*

TTNA response to TCF review recommendation 11: The TTNA is encouraged that the report recognised that the size of the Australian Government procurement business, at around \$26 billion, could provide the TCF industries and the Australian economy with significant benefits derived from greater local industry participation. We therefore **support** policy action by federal, state and local government that encompasses capability building and consideration for value for money. Given that the US Government Defence Department purchasing procedures under the Berry Amendment is legislated policy that favours local (USA) manufacturers of footwear and apparel, then a precedent exists under the Australia/US Free Trade Agreement for a similar commitment to Australian manufactured goods by Australian Government.

The TTNA advocates that state and federal governments adapt a preference for local manufacturers and producers. We unequivocally advocate the policy of "achieving value for money" to mandatorily include whole-of-life costing and ethical considerations in the use of all inputs (embodied energy) and resources including human resources.

This policy should also be adopted at state and local level with the aim of standardising public purchasing protocols across all government sectors making it easier for industry to do business with government.

TCF review recommendation 12: *The TCF ICP should have as a priority the improvement of R&D performance in Australian TCF firms, especially technical textiles, both through individual projects and through broader innovation partnerships and networks with research and educational institutions. There should also be an opportunity for TCF firms and organisations to access programs resulting from the Review of the National Innovation System.*

TTNA response to TCF review recommendation 12: The TTNA **supports** the view that TCF ICP should have as a priority the improvement of R&D performance, especially technical textiles and the opportunity for firms to access programs resulting from the review of the national innovation system.

The Australian technical and nonwoven textiles industry views investment, including RDI activity, as the principal driver of growth. Product rollover and the renewal of ideas are constant, as is the need for reinvestment in technology. Indeed, the report confirmed that the TCF Strategic Investment Program was critical to carrying the industry to the next level required to position the industry competitively past 2010. To that end, the TTNA called for the reversal of the SIP post 2005 program's discrimination against the nonwoven industry in its exclusion from Type 2 grants. Professor Green's support of our industry through the report was heartening; however the recommendation that SIP continues unchanged until 2010 was a disappointment and unfortunately fails to recognise that the technological developments made in the technical textiles and nonwovens sector are evidence of the innovation required from the TCF industry as a whole if its sustainability is to be ensured.

As the TTNA agrees with the Federal Government that innovation policy is industry policy, we therefore call on the Government to immediately implement the recommendations of the Innovation Review and replace the existing R&D Tax Concession Scheme with recommendation 8.3 of this review:

"The existing R&D Tax Concession (the 125 percent R&D Tax Concession, the 175 percent Premium, the R&D Tax Offset and the International Premium) should be replaced with a Tax Credit in order to raise the level of business expenditure on research and development by providing a less complex and more predictable support mechanism"

and 8.5 calling for

"Risk management models be developed to maximise the extent to which the refundable tax credit can be paid more regularly – at least quarterly in arrears. Regard should be had to the likely benefit relative to administrative and compliance costs and the need to manage risk. "

TCF review recommendation 13: *A further priority of the TCF ICP is to provide additional targeted support to TCF firms and organisations in meeting their needs for training and skills development, where this is required over and above the expanded range of programs available through the Department of Education, Employment and Workplace Relations.*

TTNA response to TCF review recommendation 13: All industry reviews conducted by the TTNA have identified that a higher skill set is required to meet the challenge of producing higher value-added products more efficiently and at a higher quality. The objective of industry is to increase the value-adding skills of the workforce in order to innovate and help reduce manufacturing costs, thereby building a competitive advantage. The TTNA therefore **supports** the priority of the TCF ICP to provide additional targeted support to TCF firms and organisations in meeting their needs for training and skills development, where this is required over and above the expanded range of programs available through the Department of Education, Employment and Workplace Relations.

In recognition that the report identified training and skills development as a priority, the TTNA advocates an allocation of \$5million to invest in the TCF industry's human resources.

TCF review recommendation 14: *The commitment to Part 1 of TCF SAP, which provides assistance to retrenched workers in the TCF industries, should continue to 2015, with a budget allocation of \$25 million, but preferably in an enhanced form to meet concerns expressed about its operation. There should be a greater role for the industry stakeholders in facilitating access by workers to employment and training services, and a feasibility study should be conducted into the potential contribution of a TCF group training company.*

TTNA response to TCF review recommendation 14: The TTNA **supports** the continuation of part one of TCF Structural Adjustment Program (SAP) for retrenched TCF workers to 2015 with a budget allocation of \$25 million, provided it is enhanced to meet concerns expressed about its operation.

The TTNA **supports** the review's recommendation for a feasibility study into the potential contribution of a TCF group training company and proposes this be included in the budget allocation of \$5million for targeted training and skills development.

TCF review recommendation 15: *Better protection should be provided to workers engaged in home-based manufacture of TCF products through both legislation and industrial awards, and steps should be taken to ensure that homeworkers whose work is performed for a single customer or business are deemed to be employees for the purpose of legislative and other entitlements.*

TTNA response to TCF review recommendation 15: The TTNA **supports** this recommendation for the better protection of outworkers or home-based TCF manufacturing personnel.

As was outlined in the TTNA's submission to the review, sustainability is a pertinent and profound issue on many levels. The success of the TTNA's recent conference, *Sustain-tex*, and the feedback from industry personnel indicates that the enduring responsibility for the industry is twofold:

- to practice environmentally sustainable manufacturing and
- to manufacture for environmental sustainability.

The challenges and opportunities in striving for sustainability are significant and will require committed leadership and strategic solutions. It is a collective journey for industry, the education system, the R&D community and all levels of government. It is our view that adopting our proposals will contribute significantly to addressing this issue.

A summary of the TTNA's recommended government investment in the TCF industry follows:

	Review Total	TTNA Recommends
	<i>A\$ million</i>	<i>A\$ million</i>
TCF Innovation Capability Program (Recommendation 5)	185	533
Small Business Program (Recommendation 5)	15	25
Enterprise Connect TCF business advisors (Recommendation 8)	Zero	5
Group Training Feasibility & targeted training & skills development (Recommendation 13)	Zero	5
Structural Adjustment Program (Recommendation 14)	25	25
Australian Ethical Quality Mark (Recommendation 9)	8	Zero (oppose)
Australian National Sizing Standard (Recommendation 10)	5	Zero (oppose)
TCF Innovation Council (Recommendation 4)	12	12
Product Diversification Scheme – PDS (Recommendation 3)	Zero	25

Supply Chain Opportunities Program – SOP (Recommendation 5)	Zero	20
TOTAL	250	650

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