6

Other issues

Export Market Development Grants

6.1 The Australian Government provides financial assistance to small and medium export-ready business through the Export Market Development Grants (EMDG) scheme. The EMDG scheme, administered by Austrade:

- encourages small- and medium-sized Australian businesses to develop export markets
- reimburses up to 50 per cent of eligible export promotion expenses above $5,000 provided that the total expenses are at least $15,000
- provides up to eight grants to each eligible applicant.[1]

6.2 The annual EMDG scheme budget is $137.9 million, with total grants of $131.6 million paid in 2017-18 to 3,705 businesses.

6.3 In response to committee questioning on the effectiveness of the EMDG scheme, DFAT and Austrade noted that the demand for the grant has been growing in recent years. They noted that the most recent client satisfaction survey showed that '95 per cent of respondents report the receipt of an EMDG grant enabled their business to become a more sustainable exporter', and that '54 per cent of respondents reported the receipt of a grant enabled them to grow their international revenue.'[2]

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1 Australian Trade and Investment Commission (Austrade), *Export Market Development Grants*, <https://www.austrade.gov.au/Australian/Export/Export-Grants/About/what-is-emdg>, accessed 25 March 2019.

2 Department of Foreign Affairs and Trade (DFAT) and Austrade, *Submission 19.1*, p. 7.

6.4 When asked how the EMDG scheme compares to similar international schemes, DFAT and Austrade responded that export assistance can vary considerably, and that the EMDG scheme 'is one of the few national government schemes that provides broad based assistance for businesses promoting their goods and services for export.'[3]

6.5 In its *Australia 2030: Prosperity through Innovation* report, the Office of Innovation Science Australia recommended encouraging the growth of export firms, particularly young high-growth firms, by increasing EMDG scheme funding and by expanding and making better use of trade agreements.[4]

6.6 The committee notes that in the recent report *From little things big things grow: Supporting Australian SMEs go global*, the Joint Standing Committee on Foreign Affairs, Defence and Trade discussed stakeholder concerns about shortfalls in the EMDG scheme. This included evidence received that 'due to a lack of funding for the EMDG scheme compared to applicants, the "certainty of rebate is no longer present"', and that it 'is a very tightly run scheme and nothing like the R&D scheme where applications may fill out a tax return and get money back from their tax outlay'. A submitter called for a $35 million increase to the budget to 'restore certainty of rebate'.[5]

6.7 In its report, the Joint Standing Committee on Foreign Affairs, Defence and Trade recommended that the Australian Government review the resourcing of agencies and programs assisting Australian small and medium enterprises (SMEs) trade internally, including:

- Assessing the current funding arrangements for the Export Market Development Grant (EMDG) scheme to ensure it meets the growing demand and maintains the real value of individual grants under the EMDG scheme, including investigating strategies to better target the scheme towards high-growth SMEs; and
- Evaluating the potential for using improved digital technology to reduce the administrative burden of the Export Market Development Grants scheme for applicants.[6]

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3 DFAT and Austrade, *Submission 19.1*, p. 7.

4 Innovation and Science Australia, Australia 2030 Prosperity through Innovation, November 2017, p. 38, Strategic Opportunity 2.2.

5 Joint Standing Committee on Foreign Affairs, Defence and Trade, *From little things big things grow: Supporting Australian SMEs go global*, February 2019, p. 205.

6 Joint Standing Committee on Foreign Affairs, Defence and Trade, *From little things big things grow: Supporting Australian SMEs go global*, February 2019, p. 213, Recommendation 5.

Infrastructure

Improved coordination

6.8 Efficient infrastructure was identified—alongside competitive tax settings, competitive and reliable energy, efficient regulation, and a productive and skilled workforce—as a key priority for business.

6.9 While the opportunities and challenges with investing in infrastructure is an issue in its own right, the committee's discussion focuses on the role of infrastructure in supporting business operations. Infrastructure is crucial for business to operate efficiently and effectively. Transport and communications infrastructure, in particular, emerged in evidence to the committee as areas of concern for businesses.

6.10 The committee heard that the retail industry relies heavily on the efficient operation of its supply chains. The Australian Retailers Association (ARA) commented that 'costs to the economy from lost productivity and delays in the provision of goods and services are unnecessary and troublesome.'[7]

6.11 A number of submitters supported a more coordinated and holistic approach to planning and infrastructure.

6.12 For governments to achieve greater coordination, the Australian Chamber of Commerce and Industry (ACCI) proposed that the Australian Government take the lead in significant areas of planning and infrastructure. Whether through the Council of Australian Governments (COAG) or by other means, it called for 'a top-down holistic approach to infrastructure'.[8] It stated:

> Get together everyone: the feds, the states and the local governments. Let's have a discussion about what kind of Australia we want and how we're going to distribute our population most efficiently using the infrastructure that we've got in a way that doesn't lead to a lot of these problems that we've seen to date with housing affordability et cetera. So that's what our members want to see. That's what business really wants to see. Elevate this issue.[9]

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7 Australian Retailers Association (ARA), *Submission 15*, p. 9.

8 Mr Adam Carr, Director, Economics and Industry Policy, Australian Chamber of Commerce and Industry (ACCI), *Committee Hansard*, 31 July 2018, p. 11.

9 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 11.

6.13 The Department of Prime Minister and Cabinet provides COAG with secretariat support. The committee noted KPMG's comment that there is a question as to whether 'we possibly need a COAG with a permanent secretariat rather than having one that has an agenda which is one of the Prime Minister of the day.'[10]

6.14 Specific Councils within COAG enable it to focus on key national priorities, and include issues of: federal financial relations; disability reform; transport and infrastructure; energy; industry and skills; education; health and matters for consideration by Attorneys-General. Secretariat arrangements differ between COAG councils. For example, the secretariat for the Transport and Infrastructure Council is funded by and located within the Commonwealth Department of Infrastructure and Regional Development.

6.15 KMPG argued that the political arrangements are lacking when it comes to dealing with long-term issues, like infrastructure, health and education, and noted that it 'would have recommended that COAG should have a permanent secretariat and that the agenda should be partly set by the premiers and partly set by the Prime Minister of the day.'[11] KPMG stated:

> …we've got some long-term problems that we need to think about, not only health and education but a whole array of things, including infrastructure. We don't have a political infrastructure that looks at these things in the long term on a federal basis…
> I think our Federation is fantastic. I'm a strong supporter of horizontal fiscal equity, and I think we do a much better job of this than the US, in particular, but also Canada. But we need something else to help us solve longer term problems.[12]

6.16 The ACCI indicated that it saw merit in KMPG's idea for a permanent secretariat for COAG and stated:

> Maybe that's worth exploring when you look at some of the key problems around planning and infrastructure failures which have led to housing affordability problems.[13]

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10 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 1.

11 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 5.

12 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 5.

13 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 10.

6.17 In relation to the resources and energy sector, DFAT and Austrade acknowledged that while the sector is strong, 'the availability of facilitating infrastructure, such as pipelines, can affect the competitiveness of Australia as an investment destination'.[14] The Australian Petroleum Production and Exploration Association Limited (APPEA) commented that:

> Given Australia's vast size, remote terrain and distance from markets (both domestic and export), many projects cannot individually underpin the infrastructure required to undertake high cost exploration and/or production activities. This presents challenges for both industry and governments.[15]

6.18 Streamlining approval and compliance processes in relation to public infrastructure requirements was suggested as a way to reduce the complexity and cost associated with public infrastructure projects.[16]

Transport and logistics

6.19 Effective road infrastructure and management is crucial for business operations. Submitters raised concerns about the efficiency and effectiveness of Australia's transport and logistics arrangements.

6.20 The Australian Trucking Association (ATA) made a number of recommendations to improve Australia's freight capabilities in relation to road transport. It stated that:

> …delivering more of the same policy outcomes will not deliver the road freight productivity improvements required to enable increased economic output, and improving safety, congestion and environmental outcomes. There is a clear and pressing need for an enhanced road freight productivity agenda.
>
> Increased costs, regulation, and slower productivity growth for road freight is ultimately a burden on supply chains for other economic sectors, creating a barrier and disincentive on potential business investment.[17]

6.21 The ATA recommended that the Heavy Vehicle Road Reform must include road funding reform, and that the 'Australian Government should

14 DFAT and Austrade, *Submission 19*, p. 12.

15 Australian Petroleum Production and Exploration Association (APPEA), *Submission 28*, p. 18.

16 Business Council of Australia, *Submission 28*, p. 8 and Consult Australia, *Submission 31*, p. 4.

17 Australian Trucking Association, *Submission 7*, p. 6.

increase the priority of upgrades to the regional and remote road network to better enable business investment, opportunity and connectivity.'[18]

6.22 Evidence to the committee reflected the reliability of road infrastructure in regional areas as a particular concern. The Bland Shire Council provided an example of a six week road closure in 2016 of the West Wyalong and Forbes portion of the New South Wales Newell Highway due to flooding. The Bland Shire Council claimed that the conservative cost for this six week closure was $153 million, and argued that while the Newell Highway is New South Wales' and Australia's third largest freight corridor and premier inland touring route, only band aid fixes had been applied rather than properly investing in this important piece of road infrastructure. It noted that closures due to flooding had occurred periodically over a number of years.[19]

6.23 The Red Meat Advisory Council (RMAC) also highlighted the importance of road investment and infrastructure. It recommended reinstating the Strategic Regional Fund to help ensure strong road transport exists around agribusiness.[20]

6.24 More broadly than roads, Master Builders Australia commended Commonwealth and state government commitments to increase infrastructure spending, but also called for a more extensive role for the private sector in supplying infrastructure. Master Builders recommended improving the infrastructure financing by:

- public sector – increased direct financing of public economic and social infrastructure, with incentives for state and territory governments to use funds from the sale of existing assets over debt financing;
- private sector – identifying and then actioning market-based opportunities, for example, in matching the demand-side (infrastructure providers) with the supply-side (financial institutions and other interested investors); and
- look into alternate PPP [public private partnership] financing relationships to encourage private sector engagement. For example, through better value capture models, transit orientated development, or better land use strategies. City Deals are ideally placed to deliver new approaches because formal agreements are established between the levels of

18 Australian Trucking Association, *Submission 7*, p. 14.
19 Bland Shire Council, *Submission 14*, p. 17.
20 Red Meat Advisory Council, *Submission 20*, p. 6.

> government who collectively can deliver better outcomes and test new mechanisms for planning and investment.[21]

Communications

6.25 Reliable and fast broadband services are crucial for most businesses. However, the committee heard that some businesses, particularly in regional and remote areas, are receiving less than optimal access to mobile coverage and internet broadband services.

6.26 This poses challenges not only for current operations but for future growth. Commpete submitted that:

> Access to reliable, next generation broadband is essential to the future prosperity of the nation. Businesses across almost all industries require broadband to be able to transition to a digital economy, and countries that could not offer ubiquitous access to genuine broadband would see underinvestment in all sectors.[22]

6.27 The National Broadband Network's (NBN) stated objective is to ensure all Australians have access to fast broadband as soon as possible, at affordable prices, and at least cost to tax payers. It is wholly owned by the Australian Government and operated as a Government Business Enterprise. It provides wholesale broadband to retail providers, who then supply customers with digital services.

6.28 However, some submitters expressed frustration with the NBN rollout and contended that the NBN has not met its objectives in a number of areas.

6.29 The New South Wales (NSW) Business Chamber noted that its 2017 NBN and Telecommunications Survey found that delays and disruptions to the NBN roll out were costing businesses in the state, on average, more than $9,000. The survey findings included that:

- 39% of businesses reported having to wait more than 4 weeks for their service to be fully operational, with some businesses reporting no internet or phone availability at all during this period.
- 45% were dissatisfied with the NBN service, and complained of it being inferior to its original supply such as ADSL2.
- 42% of businesses reported NBN as being unreliable.

21 Master Builders Australia, *Submission 18*, p. 9.

22 Commpete, *Submission 10*, p. 1.

- Inadequate information about necessary equipment (EFTPOS machines, modem/routers) upgrades to ensure compatibility with the NBN.
- Some businesses were disconnected inadvertently due to NBN work despite not being an NBN supplied customer.[23]

6.30 Further, the NSW Business Chamber observed that while there have been technology challenges, 'the lack of accountability, responsibility and coordination between retailers and wholesalers in delivering broadband services to consumers were some of the most cited issues with the rollout.'[24]

6.31 To address these concerns, the NSW Business Chamber recommended a national broadband service guarantee (NBSG). It would require wholesalers, retail service providers, and contractors and installers to cooperate to deliver agreed service standards. The NBSG would focus on ensuring reliability, quality and timely fault rectification to the agreed upon standards, and failing to do so would trigger compensation.[25]

6.32 The committee asked whether Australian Competition and Consumer Commission (ACCC) action and penalties again providers—for missed appointments and misleading and deceptive conduct—was having a positive impact on customer outcomes. The NSW Business Chamber agreed that it has seen 'some positives', and that some retailers are changing as a result of the ACCC's action.[26]

6.33 The committee also heard that buyer groups are one way in which businesses are cooperating to gain access to higher speed plans, where there is limited or less reliable broadband access. As the end use price flows through to customers, these 'broadband buyers groups may be a solution for some businesses to both accelerate the roll out of 100MBs broadband and at a fair price.' [27]

6.34 However, it noted that these enterprise level arrangements are in their infancy, and may benefit from some guidance from the ACCC on parties' responsibilities.[28]

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23 New South Wales Business Chamber, *Submission 3*, p. 3.

24 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

25 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

26 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 37.

27 NSW Business Chamber, *Submission 3*, p. 6.

28 NSW Business Chamber, *Submission 3*, p. 6.

6.35 Submitters stressed the importance of access to reliable and affordable mobile phone coverage and broadband services for modern and innovative farm practices.

6.36 The Bland Shire Council submitted that improved services have the potential to revolutionise agriculture in Australia:

> The use of information technology has evolved from basic GPS to precision farming. The next frontier is 'big data'—or data-enabled agriculture, which will provide information to assist better decision making through real time delivery of relevant and specific knowledge. The potential for productivity gains through increasing yields, reducing costs and reducing agricultural risks is progressing through initiatives currently underway. These include Sense-T in Tasmania and the GrainGrowers ProductionWise programme. Farm machinery companies have developed applications that not only warn farmers of the need for maintenance, but also use data collected to facilitate real time benchmarking, further driving productivity gains.[29]

6.37 The Bland Shire Council told the committee that a limited or lack of mobile coverage could also hinder attracting business investment in regional areas. It noted that when seeking to attract investment in regional NSW, investors had been surprised that the certain areas did not get mobile coverage, for example with some parts of the Newell Highway without coverage.

6.38 To address these access challenges, the Australian Government's Mobile Black Spot Program aims to improve mobile phone coverage and competition in regional and remote Australia. Under the program the Government is investing in telecommunications infrastructure, and co-contributions are provided by from state and local governments, mobile network operators (Optus, Telstra and Vodafone), businesses and local communities.

6.39 When questioned on NBN coverage and performance in the Bland Shire region, the Bland Shire Council responded that:

> Different businesses give me different feedback. I think that's due to the level of expertise of the businesses. There's one business, a sports business called Seek Fitness, that's totally on the internet. They control their lighting, music, access and payment through NBN, and they swear by it. Other businesses who are not au fait

29 Bland Shire Council, *Submission 14*, p. 18.

> with IT and technology are struggling. The other thing which affects us in regional areas is the lack of services available. West Wyalong doesn't have a Telstra shop or any IT professionals, so they have to bring them in. If something does happen, it affects their businesses.[30]

Broadband competition issues

6.40 It is arguable that aspects of poor broadband experiences for customers can be attributed to the lack of competition. Competition in retail telecommunications markets has not been as strong in Australia as in other developed nations.

6.41 In Australia's NBN, the top three providers (Telstra, Optus and TPG) have 90 per cent market share, with the other around 500 communication companies sharing the remaining 10 per cent of the market.[31]

6.42 In response to questioning from the committee, Commpete indicated that the reduction a few years ago of the key providers from four to three—with TPG taking over iinet—has affected the market dynamic. It also noted that while there is customer shifting, it is usually between the top three or four providers, with limited impact on overall market share.[32]

6.43 One of the NBN's goals was to level the playing field in the Australian communications industry, and so enhance competition and provide customers with greater choice. By acting as a wholesaler to other retailers, it removes the barrier of the high capital cost of retailers having to build an alternative access network if they want to enter the broadband market.

6.44 Commpete noted that at the outset of the NBN rollout, analysts had expected the market share of the biggest retailer Telstra to fall from around 50 per cent to around 30 per cent, with the market share of the non-major retailers combined to double from around 15 per cent to 30 per cent. However, Commpete observed that according to the ACCC's recent Communications Market Study Telstra still has 50 per cent market share, which suggests that by this measure the NBN has yet to make an impact on competition.[33]

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30 Mr Jeffrey Stien, Senior Economic Development and Tourism Adviser, Bland Shire Council, *Committee Hansard*, 12 September 2018, p. 3.

31 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 12.

32 Ms David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, pp. 15-16.

33 Commpete, *Submission 10*, p. 2.

6.45 Commpete argued that 'some of the ways that NBN has operated have betrayed a lack of focus on what it was trying to achieve in terms of competitive outcomes.'[34] For example, it identified NBN's complex pricing structures and NBN's propensity to 'make changes to the way it operates at very short notice' as hindering new entrants to the market, in particular smaller operators.[35]

6.46 In relation to what Commpete viewed as unnecessary complexity, it noted that retailers buying services from NBN must enter into a Wholesale Broadband Agreement comprising about 720 pages. Commpete commented that:

> …it's completely open for NBN to reconsider what it's trying to achieve to look at that wholesale agreement and say, 'That's too hard for a small player to sign onto. We can reduce that to 10 pages and we can have a clause in there that says that, in the event that there's any misunderstanding or disagreement, the two parties will agree to let, for example, the ACCC adjudicate'. I don't think the parliament needs to be involved. Maybe the government as a shareholder can say to NBN, 'Think again'.[36]

6.47 Commpete proposed five initiatives for getting the NBN back on track towards achieving the original goal of building 'a new, future-proof access network, completely independent of retail markets, which would allow challengers and new entrants to focus their investment in competitive activities.'[37] It outlined the initiatives for the committee:

> The first one is requiring a competition impact statement accompanying all proposed policy and regulation in communications. The others are a recommitment to a separated wholesale-only NBN selling on a non-discriminatory basis; to create a KPI for the NBN CEO to achieve a 30 per cent market share for his or her RSP customers outside the big three retailers; a write-down of the value of NBN to allow it to reset wholesale prices; and, lastly, to create a right of access principle in mobile markets, which are currently unregulated.[38]

6.48 In relation to the proposed competition impact statement, Commpete suggested that it would help to better address competition and consumer

34 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, p. 11.

35 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, p. 11.

36 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, pp. 11-12.

37 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 9.

38 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 9.

experience issues. Commpete noted that now halfway through the NBN roll-out there has already been 'a lot of the regulations, new policies and reporting are all around consumer experience.'[39] However, it cautioned that policy makers need to be mindful that 'these regulations do create costs that disproportionally impact on challengers.'[40]

6.49 As an alternative to additional regulation aimed at improving NBN customer outcomes, Commpete contended that a customer impact statement would be more effective in achieving this aim. It recommended that:

> Regulators and policymakers should be required to assess the impact of competition and their actions by publishing a competition impact statement when proposing new measures. That would require them to look at different approaches to achieve the same desired outcome and the relative impact on competition for each alternative.[41]

6.50 When questioned on what the second initiative—recommitting to a separated wholesale-only NBN—would involve, Commpete clarified that it is simply a recommitment to the existing requirement for the NBN to operate as a structurally separated wholesale-only provider. Commpete suggested that this recommitment would signal to investors that NBN is not going to become a retailer or be purchased by a retailer. It stated that 'while there is any expectation that that may be happening, it starts to affect other people's investment plans.'[42]

Supplier payment times

Impacts of delayed payment times

6.51 Late payment times, and extended payment terms (beyond the usual industry standard) by large suppliers is an area of concern for small and medium enterprises (SMEs), as it can negatively impact these businesses' cash flow. While extended payment terms affect all business, the impact tends to be disproportionate on SMEs, especially those operating on already tight margins.

39 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 12.
40 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 13.
41 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 12.
42 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, p. 11.

6.52 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) described late payments as a 'perennial problem' for Australian businesses. In its April 2017 report *Payment Times and Practices Inquiry – Final Report*, the ASBFEO stated that:

> The growing trend for extended payment times impacts the economy in two ways. Firstly, it slows down the flow of cash through supply chains which limits the growth of businesses as they have more capital tied up in financing their operations and secondly it raises costs for businesses which are financing longer trade credit to their customers.
>
> When a business experiencing extended payment times also experiences late payments it will stress the business further with significant ramifications for the solvency of the business.[43]

6.53 The committee heard that for SMEs late payments are more than just a source of headaches they can be 'the difference between a business thriving and becoming insolvent.'[44] Late payments can impact SMEs in the following ways:

- emotional toll on owners
- impeded cash follow
- locked-up capital
- additional financial and administrative costs
- diminished investment potential
- hampered market competitiveness
- reduced confidence.[45]

6.54 As many businesses cannot pass extended trading terms on, for example they still need to pay their staff on a weekly or fortnight basis and creditors within 30 days, they cut back in other areas, such as staff training, maintenance and growth activities.

6.55 Further, many SMEs are having to source outside funding to address their cash flow difficulties and keep the business going. The Resource Industry Network's survey of regional businesses found that:

> Almost half of respondents have had to source alternate bridging finance to mitigate the impact of the extended trading terms and almost three quarters of respondents nominated that the extended

43 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Payment Times and Practices Inquiry – Final Report*, April 2017, p. 5.

44 Bland Shire Council, *Submission 14*, p. 13.

45 Bland Shire Council, *Submission 14*, p. 14.

> trading terms have had a material impact on their organisation's ability to deliver goods and services in some way.[46]

6.56 Beyond the impact on the business, the effects of late payments can also take a personal financial and emotional toll on SME owners. The committee heard that 35 per cent of business said late payments have affected their personal finances, including hindering their ability to pay rent and power bills. Fifty-two per cent of SME owners also said it had impacted on their stress and anxiety levels.[47]

6.57 As the trucking industry is comprised of mainly small businesses and is characterised by tight margins, businesses in this industry are vulnerable to adverse changes in their payment terms. These small businesses typically incur the majority of their costs—such as wages, fuel, tyres and insurance—before they can bill their customers. They also have limited capacity to negotiate with large companies when it comes to payment terms.

6.58 To address the payment terms issues affecting small trucking businesses, the Australia Trucking Association (ATA) recommended that the Australian Government implement a mandatory payments code for the trucking industry under Part IVB of the Competition and Consumer Act. Further, it noted that the payment terms should include special rules covering receipt created invoices to prevent customers from delaying the creating of these invoices to avoid triggering the 30 day period.[48]

Large company payment practices

6.59 The committee heard that research indicated that large companies (characterised by 500 or more employees) are 'often the slowest payers of all businesses.'[49] The Bland Shire Council noted findings that:

> Many [large companies] enact an outstanding invoice drift up to 58 days on average. Such delays can compromise or even cripple SMEs and make it even harder to provide reliable supply unless SMEs concentrate their efforts on that clients more intently (exposing the SME to concentration risk).[50]

46 Resource Industry Network, *Submission 32*, p. 1.

47 Bland Shire Council, *Submission 14*, pp. 13-14.

48 Australian Trucking Association, *Submission 7*, p. 4.

49 Bland Shire Council, *Submission 14*, p. 13.

50 Bland Shire Council, *Submission 14*, p. 13.

6.60 The committee noted evidence to the inquiry that extended payment terms featured in the mining and resources sector, with extended payment terms imposed during a pullback in commodity prices at the time. SME stakeholders submitted that despite the sector recovery, extended payment terms have persisted.

6.61 The Resource Industry Network, representing regional businesses that supply to mining operations, argued that if this continues it will lead to 'fewer suppliers in the market, meaning higher prices, less competition, reduced capacity and the burden of R&D will fall entirely back to resource houses.'[51]

6.62 The Resource Industry Network advocated for mine operators to revert back to 30 day payment terms. In its survey of regional businesses 'respondents noted that even in the case of 60 day payment terms there were delays with invoices being approved which in some cases extend payment to more than 100 days.'[52] Respondents also noted that 75 to 100 per cent of their revenue was on extended trading terms.

6.63 The Resource Industry Network commissioned an economic analysis of the impacts of extended payment terms on SMEs that work with major mining companies in the Mackay region. It found that the extended payment terms are 'creating real adverse impacts for many businesses in the supply chains of large mining companies in Queensland, particularly in the Mackay and Central Queensland regions.'[53] The report stated that:

> If payment terms were restored to thirty (30) days, an additional 250 jobs could be generated in these regions [Mackay and Fitzroy] in firms directly impacted by extended payment terms. Taking into account flow-on effects, this would be associated with a total of 380 additional jobs, an improvement in wages of around $150 million over five years and a corresponding increase in gross regional product of around $250 million over five years at the same time.[54]

6.64 Woodside Energy observed that it is in its own interests to maintain long-term beneficial relationships with local businesses and the communities in which it operates. It noted that the company's standard payment terms

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51 Resource Industry Network, *Submission 32*, p. 2.

52 Resource Industry Network, *Submission 32*, p. 1.

53 Resource Industry Network, *Economic Analysis of Impacts of Extended Payment Terms*, Prepared by Lytton Advisory, August 2018, p. 22.

54 Resource Industry Network, *Economic Analysis of Impacts of Extended Payment Terms*, Prepared by Lytton Advisory, August 2018, p. 2.

have remained unchanged throughout economic downturns, and that it has the flexibility to reduce payment times to 14 days under certain circumstances, such as payments for Indigenous businesses.[55]

Government policy and changes

6.65 In its April 2017 report on its inquiry into payment times and practices, the ASBFEO concluded that 'government has a role as first mover to reverse the trend' of extended payment times.[56]

6.66 The ASBFEO told the committee that it continues to recommend legislation that sets maximum payment times for business to business transactions, and noted that 'certainty of cash flow provides confidence for a business to engage more employees and invest in growth.'[57] In its report, the ASBFEO made ten recommendations:

> Six of the recommendations seek to maximise governments' role as payment leaders, three of the recommendations seeks the Commonwealth Government's agreement to mandate payment times and practices into industry codes and to legislate business-to-business payment times and practices. The final recommendation asks for governments to encourage the adoption of technology solutions to assist business to streamline administrative tasks and facilitate payment practices.[58]

6.67 In its response to the ASBFEO's report, the Australian Government noted the recommendations on government procurement (2, 3, 5, and 7) and on supplier payment culture (7, 8 and 9). However, it did not support Recommendation 6, that the Australian Government procure from businesses which have supply chain payment times and practices equal to or better than its practices.

6.68 It also commented that limiting the number of businesses from which the Commonwealth can procure risks undermining the Commonwealth's capacity to achieve value for money.

6.69 Further, it stated that this would introduce an additional regulatory burden of verification requirements to bid for Government tenders, which would disproportionately affect SMEs.

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55 Woodside Energy Limited, *Submission 16*, Attachment 2, p. 2.

56 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Payment Times and Practices Inquiry – Final Report*, April 2017, p. 5.

57 ASBFEO, *Submission 30*, p. 2.

58 The Treasury, *Payment times and practices: Government response to the Australian Small Business and Family Enterprise Ombudsman Inquiry*, November 2017, p. 2.

6.70 The Australian Government did support ASBFEO's Recommendations 1 and 4, with amendments.

6.71 Recommendation 1 in the ASBFEO's report was for the Australian Government to adopt a 15 business day payment time by July 2018, and that all levels of government should consider adopting this.

6.72 On 22 November 2017, the Australian Government announced that it will be required to pay invoices for contracts worth up to $1 million within 20 calendar days (equivalent to 15 business days); a reduction from the current 30 day policy. This will apply from July 2019.[59] In its response to the ASBFEO's report, the Government stated that this 'will capture approximately 95 per cent of procurement contracts entered into by the Commonwealth'.[60]

6.73 The ASBFEO's Recommendation 4 was for the Australian Government to publish its payment times and policies, and for all its agencies and entities, with performance against best practice benchmarks. It recommended that all levels of government consider adopting this approach.

6.74 Since 2002 the Australian Government has been conducting a survey, on a voluntary basis, measuring compliance with Pay On-Time policies that applied in a given year. Sixty-eight agencies participated in the 2016-17 survey, which found that responding agencies were paying on average 95.9 per cent of contracts valued under $1 million on time within 30 days.

6.75 However, the Australian Government acknowledged that the level of participation in the voluntary survey varied from year to year. In its response to the ASBFEO's recommendation on performance reporting, the Australian Government committed to:

> …increase the transparency and accountability of agencies in complying with the Supplier Pay On-Time or Pay Interest Policy by mandating that all NCCEs [non-corporate Commonwealth entities] report payment performance against the stated policy, which will include a breakdown on the proportion of invoices paid within 20 and 30 days. While all agencies will be invited and encouraged to participate in the next survey, mandatory reporting

59 Senator the Hon Mathias Cormann, Minister for Finance, the Hon Malcolm Turnbull MP, Prime Minister, and the Hon Michael McCormack MP, Minister for Small Business, 'Delivering Faster Payments for Small Business', *Joint media release*, 22 November 2017, <https://www.financeminister.gov.au/media-release/2017/11/22/delivering-faster-payments-small-business>, accessed 19 October 2018.

60 The Treasury, *Payment times and practices: Government response to the Australian Small Business and Family Enterprise Ombudsman Inquiry*, November 2017, p. 3.

> will begin for the 2018-19 financial year. As agencies transition to the start of the new payment time of 20 days (on July 2019), it is anticipated that payment performance will improve year-on-year against this benchmark.[61]

Australian Supplier Payment Code

6.76 The Australian Supplier Payment Code, launched in May 2017, is a voluntary industry-led initiative that recognises the importance of prompt and on-time payment for suppliers through a set of best practice standards. It has been endorsed by the Council of Small Business Australia and the Victorian State Government. Signatories to the code commit to:

1. Pay small business suppliers within 30 days (subject to conditions)
2. Pay all suppliers on time
3. Provide clear guidance about payment procedures to suppliers
4. Work with suppliers to improve invoicing and payments practices
5. A process for resolving payment disputes and complaints
6. Basic reporting on company policies and practices in place to comply with the Code.[62]

6.77 In a media release on 22 November 2017 the Australian Government noted that the Australian Supplier Payment Code 'encourages big business to pay small businesses sooner.'[63]

61 The Treasury, *Payment times and practices: Government response to the Australian Small Business and Family Enterprise Ombudsman Inquiry*, November 2017, p. 3.

62 *Australian Supplier Payment Code*, <http://www.bca.com.au/policy-agenda/australian-supplier-payment-code>, accessed 18 October 2018.

63 Senator the Hon Mathias Cormann, Minister for Finance, the Hon Malcolm Turnbull MP, Prime Minister, and the Hon Michael McCormack MP, Minister for Small Business, 'Delivering Faster Payments for Small Business', *Joint media release*, 22 November 2017, <https://www.financeminister.gov.au/media-release/2017/11/22/delivering-faster-payments-small-business >, accessed 19 October 2018.

Conclusions and recommendations

Export Market Development Grants

6.78 Through the Export Market Development Grants (EMDG) scheme the Australian Government provides financial assistance for small to medium business. In 2017-18, $131.6 million in financial grants were paid to 3,706 businesses.

6.79 The committee notes the Office of Innovation Science Australia (ISA) recommendation to 'significantly increase funding support to export focussed SMEs through the EMDG scheme to further drive the success of Australian SMEs in export markets', and the Joint Standing Committee on Foreign Affairs, Defence and Trade recommendation in the *From little things big things grow: Supporting Australian SMEs go global* report to assess the current funding arrangements for the EMDG scheme 'to ensure it meets the growing demand and maintains the real value of individual grants'.[64]

6.80 The EMDG scheme is an important program for supporting Australian SMEs to increase their international marketing and promotion expenditure to help achieve a sustainable presence in the global market. An increase in EMDG scheme funding by the Australian Government will provide greater certainty and enhance support for SMEs to grow their export capabilities.

Recommendation 11

6.81 **The committee recommends that the Australian Government review the Export Market Development Grants scheme to ensure that the level of funding is sufficient to assist local small and medium-sized Australian businesses to increase their engagement with the global marketplace.**

In undertaking the review, the Australian Government should consider the new export opportunities arising from recent free trade agreements, including the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* and the *Indonesia–Australia Comprehensive Economic Partnership Agreement*.

64 Joint Standing Committee on Foreign Affairs, Defence and Trade, *From little things big things grow: Supporting Australian SMEs go global*, February 2019, p. 213.

Improving infrastructure coordination

6.82 It is clear that physical infrastructure is crucial to all aspects of Australian society. Businesses rely on this infrastructure, for example transport and logistics, to deliver goods and services to customers. Where infrastructure is lacking, this puts pressure on business operations and constrains business investment.

6.83 The committee recognises that this is a big and complex issue that must be tackled by all levels of government. It is too important to be relegated to the too hard basket or to adopt a piecemeal approach.

6.84 The committee noted KPMG's evidence that Australia would be better served by a permanent COAG secretariat. The committee agreed to consider whether a permanent secretariat would provide a continuity of support to better enable COAG to focus on shared issues of significance, including, but not limited to, planning and infrastructure and energy policy. KPMG has recommended that COAG should have a permanent secretariat and that the agenda should be partly set by the premiers and partly set by the Prime Minister of the day.

6.85 Transport infrastructure is an area in which government at all levels should explore opportunities, wherever possible, to harmonise policy and regulation so that it supports the planning, development, operation and maintenance of Australia's transport networks now and into the future.

6.86 The committee agrees that greater cooperation between the Commonwealth and State and Territory governments is needed on significant areas of policy that affect all Australians, such as planning and infrastructure.

Communications infrastructure

6.87 Given the importance of communications as an enabling infrastructure that drives growth and investment, it is crucial that businesses have access to reliable and affordable broadband services and mobile phone coverage.

6.88 While metropolitan areas tend to be reasonably serviced, the committee notes that access to these services are also crucial for regional businesses, including the agricultural sector, with modern and innovative farming practices depending on these services.

6.89 However, in some regional and remote communities farmers and businesses are not getting crucial services to help ensure the viability and growth of their operations.

6.90 While the Australian Government's Mobile Black Spot Program is working to improve mobile phone coverage and competition in regional and remote Australia, there is still some way to go in securing reliable and affordable broadband services for businesses in these areas.

6.91 The committee noted Commpete's proposed initiatives for enhancing National Broadband Network's customer outcomes.

Recommendation 12

6.92 **The committee recommends that the Australian Government adopts the following initiatives to enhance National Broadband Network (NBN) customer outcomes:**

- **require a competition impact statement to accompany all proposed policy and regulation, and**
- **recommit to a separated wholesale-only NBN selling on a non-discriminatory basis.**

Supplier payment times

6.93 For small and medium enterprises (SMEs), receiving late payments or being subject to extended payment times may not just impede business investment and growth, but could threaten the survival of the business.

6.94 The committee recognised that beyond that it can also take a significant personal financial and emotional toll on SME owners.

6.95 The committee noted that the Australian Government has taken responsibility for observing best practice in relation to payment times, and has agreed to a recommendation from the Australian Small Business and Family Enterprise Ombudsman to reduce its required payment time. From July 2019, non-corporate Commonwealth entities will be required to pay invoices for contracts worth up to $1 million within 20 calendar days (equivalent to 15 business days). This is a reduction on the current 30 day policy.

6.96 The Australian Government has also committed to mandatory performance reporting on its payment times and policies, which will begin for the 2018-19 financial year.

6.97 The committee recognises that the actions of large private companies in relation to late payments and extended payment terms are negatively impacting all businesses, in particular SMEs.

6.98 These companies must also take responsibility to establish clear, and fair, practices to ensure that businesses, in particular SMEs, are being paid on-time. It is in everyone's economic interests that businesses have the opportunity to thrive and growth.

6.99 The Business Council of Australia's voluntary Australian Supplier Payment Code is one way in which businesses can signal their willingness to improve payment times and strengthen their relationships with SMEs.

Mr Tim Wilson MP
Chair
1 April 2019