The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
PO Box 289
North Sydney NSW 2059
Australia
ABN 76 369 958 788

26 July 2024

Senate Economics Legislation Committee,

Response to the Future Made in Australia Bill 2024 [Provisions] and the Future Made in Australia (Omnibus Amendments No. 1) Bill 2024 [Provisions] (FMIA)

The Australian Industry Group (Ai Group) welcomes the opportunity to provide a submission on the Future Made in Australia bills.

Ai Group is a peak national employer association representing and connecting thousands of businesses in a variety of industries and sectors across Australia. Our membership and affiliates include private sector employers large and small from more than 60,000 businesses employing over 1 million staff.

Future Made in Australia (FMIA) is a package of industry policies aimed at supporting the development of new industries associated with the net zero transformation and economic resilience of the Australian economy. It offers targeted government support for private investment in sectors where intervention is necessary to align economic incentives with Australia's national interest.

FMIA is a package of measures, comprised of:

(1) A National Interest Framework to guide public investments (in the *FMIA Bill 2024*);
(2) Amendments to the governing legislation of Export Finance Australia and the Australian Renewable Energy Agency to enable these agencies to support FMIA projects (in the *FMIA (Omnibus Amendments No. 1) Bill 2024*); and
(3) Specific support measures for critical minerals, renewable hydrogen, green metals, low carbon liquid fuels, clean energy manufacturing and allied regulatory reforms (announced in the 2024-25 Federal Budget)

The 2024-25 Federal Budget allocated $22.7 billion to FMIA reforms and support measures over the next decade. The National Interest Framework anticipates that additional support measures may be extended to other sectors in the future.

Ai Group welcomes FMIA's focus on encouraging private investment to support economic resilience and the net zero transition. It recognises that business possess the skills, capital, market information, risk management capabilities and flexibility required to develop Australia's future industries. It also recognises that economic incentives are sometimes not aligned to enable such investments, and that targeted and proportionate government support has a role to play in ensuring that investor incentives align to the national interest.

Ai Group also welcomes and strongly supports the degree of rigour that FMIA introduces to industrial policy in Australia. The *FMIA Bill* establishes in legislation a National Interest

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

Framework which identifies specific criteria for whether sectors and/or projects should warrant public investment.

Principles related to Australia's competitive potential in an industry, support for private sector investment, genuine value-for-money, and specific criteria for economic resilience and/or net zero outcomes are equally important. They will help ensure that public investments are proportionate and targeted, and deliver on their intended objectives.

Provisions which vest Treasury with responsibility for conducting independent sectoral assessments before support is offered, and to codify expectations for supported projects in written FMIA Plans, will help ensure public support is offered in a rigorous, evidence-based and transparent manner.

This rigour brings a welcome degree of transparency and accountability to FMIA. It ensures that decisions to offer public support are based on clear policy principles, and can be assessed through a robust and transparent framework. It also allows the performance of FMIA support measures to be evaluated against objectives, and adjustments made as market structures and policy learning evolve.

However, further reforms are needed if FMIA is to genuinely deliver on its transformational objectives for Australian industry. There is an urgent need to increase investment in industries supporting net zero transition and economic resilience. Australia's experience of supply chain disruptions during the COVID pandemic highlights how swiftly economic security challenges can arise. The long-term success of the decarbonisation efforts needed – whether in generation, distribution, transport or industry – depend on investments being made today.

In a context of intense international competition for these sought-after investments and technologies, Australia cannot afford to wait. As the Assistant Minister for Manufacturing Senator Tim Ayres recently argued, *"This is a train that leaves the station only once"*[1].

Ai Group argues that six reforms are required to ensure FMIA successfully delivers on its stated objectives, and does so on the timeline required. These are:

1. Greater policy certainty to encourage private investment
2. More immediacy in delivering policy and investment outcomes
3. Stronger principles and criteria around support measures
4. Extend support to existing as well as new-to-Australia industries
5. Deeper policy coordination between government agencies
6. Ensuring community benefit principles are complementary to objectives

The remainder of this submission outlines the industry context, rationale for and benefits of these six proposed reforms to the FMIA package. If implemented, these reforms will ensure FMIA drives greater investment in the resilience and net zero transition industries Australia needs for our future security and prosperity.

[1] Interview with Paul Culliver, ABC Newcastle, 3 July 2024.

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

1. Greater policy certainty to encourage private investment

FMIA aims to facilitate and encourage private investment in areas that support Australia's economic resilience and/or net zero transformation. These areas are typically capital-intensive and have long time horizons between investment decisions and financial returns. It is therefore essential that there is certainty around the forms of policy support, so that investors can confidently make long-term and large commitments to Australia.

FMIA presently lacks a sufficient degree of policy certainty to achieve its outcome of encouraging private investment:

- While the National Interest Framework provides detailed criteria on the *types* of projects that might qualify for public support, it provides very limited guidance on the *form* and *quantum* of what public support may be offered.

- Of the various FMIA measures announced in the 2024-25 budget, only two (production tax credits for critical minerals and hydrogen) identify specific and quantified forms of support, with the details of the remainder subject to further design.

- The Community Benefit Principles, which recipients of support are expected to meet through obligations codified in an FMIA Plan, remain very broadly drawn; with details subject to further consultation.

The extent to which FMIA changes the incentives facing private investors depends upon the form and quantum of support offered, and the obligations that accompany it. Until additional detail on both support and obligations is enumerated, FMIA is unlikely to offer sufficient policy certainty to meaningfully leverage additional private investment.

Australia competes with other jurisdictions for investment in FMIA-targeted industries. We need to provide a level of policy certainty comparable to that available elsewhere. It is therefore instructive to compare FMIA to similar measures abroad, such as those available under the Inflation Reduction Act (IRA) in the US.

The IRA includes a broad range of tax credits, loans and grants for clean energy technologies, with the specific products, form and quantity of incentive, and associated obligations defined in legislation. This approach provides investors a high degree of transparency and policy certainty, allowing investment decisions to be made with confidence. With the exception of hydrogen and critical minerals production tax credits, the FMIA framework and announced measures do not provide comparable levels of policy certainty to the IRA.

Supports which will potentially be offered under FMIA should be made clearer, and enumerated using the same principles of rigour and transparency embodied in the sectoral assessment process. This will provide greater certainty to potential investors, and meaningfully change incentives for, and the international competitiveness of, such investments in Australia.

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

2. Greater immediacy in delivering policy and investment outcomes

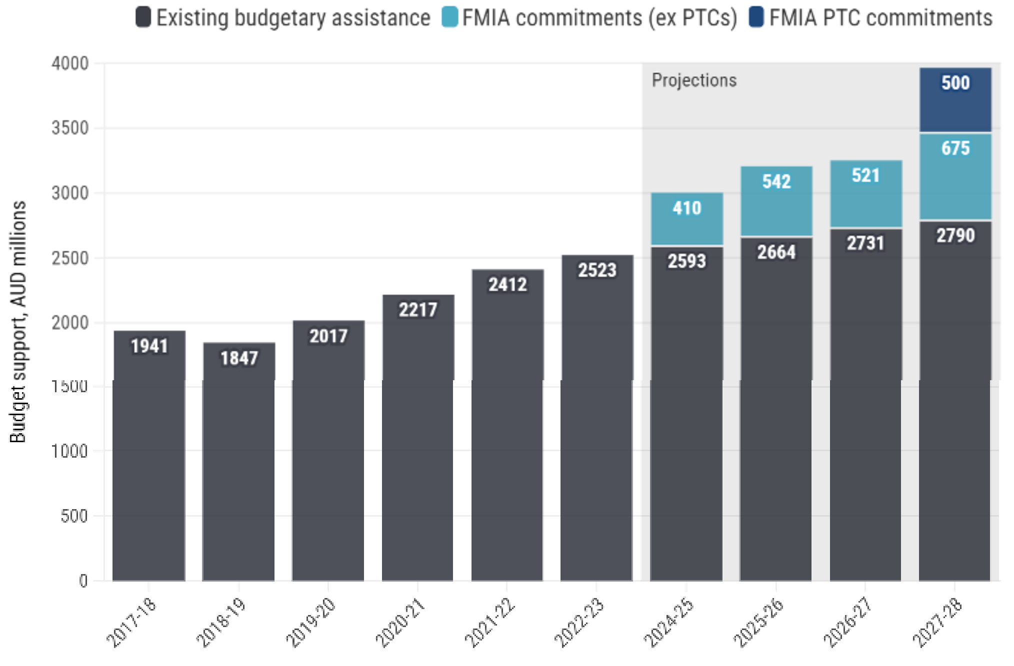
There is an urgent need to increase investment in industries supporting net zero transition and economic resilience. However, delayed timelines mean many of the FMIA measures announced in the 2024-25 budget will not be funded or commence substantive operation for some years. These include:

- ARENA will receive $1.5 billion for renewable energy technology investments for seven years from 2027-28
- Critical minerals and hydrogen production tax credits will take effect from 2027-28
- Other measures commencing immediately feature staggered implementation, with expenditure increasing until the latter part of the forward estimates.

Analysis of the FMIA-related measures announced in the 2024-25 budget reveals this lag in implementation (see Figure 1). Only 1.8% ($410 million) of the $22.7 billion of announced measures is allocated for spending in the 2024-25 financial year[2]. FMIA-related spending then increases slowly over the forward estimates, exceeding $1 billion p.a. in 2027-28 only due to introduction of producer tax credits for critical minerals and renewable hydrogen.

If FMIA is to deliver on its transformational objectives, it needs to begin incentivising private investments today, not towards the back of the forward estimates or beyond.

Figure 1: Estimates of budget support to FMIA-targeted industries



Source: Budget 2024-25 BP No. 2, Productivity Commision TAR 2022-23 Table B4 • Ai Group Research & Economics
PTCs are production tax credits for critical minerals and green hydrogen. Excludes nfp expenditure to EFA and DISR. FMIA-supported industries are defined as mining, manufacturing and utilities. Projections assume value of existing budgetary assistance is constant in real terms (inflated using forecast CPI).

[2] *Budget 2024-25*, Budget Paper No. 2, comprises all measures labelled as FMIA-related (across pp. 65-73).

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

The quantum of committed FMIA support should also be evaluated relative to existing forms of industry support. Using Productivity Commission data, Figure 1 also estimates the value of budget support offered under existing measures to the three industries – manufacturing, mining and utilities – in which most FMIA projects will be located. It finds that these FMIA-related industries received around $2.5 billion of budget support in 2023-24.

This implies that announced FMIA commitments will increase total budget support to these industries by approximately 15% in 2024-25. If the production tax credits (which flow only to the mining industry) are excluded, this ratio remains relatively constant over the forward estimates.

The National Interest Framework anticipates supporting an additional range of industries beyond those already announced. If this occurs it will increase the quantum of FMIA budget support. Future announcements might be expected in the economic resilience and security stream, where comparatively fewer commitments have been made. However, such supports are not presently designed or budgeted, nor is there a clear indication for when they will be.

There needs to be much greater immediacy in delivering support to targeted industries. The immediacy of sectoral assessments is of particular importance. The FMIA Bill requires these to be completed by Treasury prior to FMIA plans being developed and support offered. While sectoral assessments must be conducted thoroughly, they must also be completed promptly to enable decisions on support to be made in a timely manner.

3. Stronger principles and criteria around support measures

FMIA provides a framework for government support to improve incentives for private investment in targeted sectors. While the National Interest Framework outlines criteria for which sectors may warrant support, it does not provide detailed consideration of which policy measures may be appropriate for certain sectors or projects.

The only guide to intended forms of support comes from reading the FMIA measures already announced. These include a diverse array of policy interventions:

- Production tax credits (critical minerals)
- Concessional loans (new ARENA and EFA accounts, Critical Minerals Facility)
- Grants (clean energy manufacturing)
- Production credits (Solar SunShot)
- Infrastructure (Australian Made Battery Manufacturing Precinct)
- R&D expenditure (green metals)
- Certification schemes (low carbon liquid fuel Guarantee of Origin, sustainability labels on retail investment products)
- Approvals reform (development of priority process for renewables projects)
- Foreign investment reform (refunding unsuccessful FIRB application fees)
- Skills and training (National Hydrogen Skills and Training Centre)

It is appropriate to deploy such a diverse range of policy tools. Individual sectors each face

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

distinct barriers to investment, reflecting the unique features of their international markets and/or current gaps in Australia's domestic capabilities. A prescriptive approach would lack the flexibility to tailor support to specific needs of individual sectors.

It is critical that FMIA support is tailored to individual sectors. For example:

- Production credits may be appropriate for products where negative externalities from emission-intensive production methods are not appropriately priced in global markets.
- R&D support would suit industries where basic and translational science is still required to develop market-ready products.
- Approvals reform is needed in areas where complex, multi-jurisdictional permitting requirements adds delays and costs that inhibit investment decisions.
- Infrastructure provision may assist in industrial clusters where common-user infrastructure enables greater scale and cost-competitiveness at the enterprise level.

FMIA would benefit from additional principles which explicitly address what forms of support will be offered. This would augment transparency in setting guidance for both *when* and *how* public support is offered. It would also increase policy certainty by sending a clearer signal to investors regarding the forms of support potentially available.

Such criteria should be located in the National Interest Framework, alongside and linked to the criteria for sectoral assessments. They should also be reflected in the FMIA Plans negotiated with support recipients, and performance should be evaluated with respect to those criteria.

FMIA should also countenance a more comprehensive range of policy measures than those already deployed. This may include the wider use of tax reforms and incentives beyond production tax credits, with a particular focus on questions of corporate tax reform. Meeting the skills needs of FMIA-targeted industries requires improving the performance of the national training system as a whole. Industrial relations policies should deliver the flexibility required by in emerging industries, and not undermine competitiveness through excessive complexity or rigidity.

4. Extend support to existing industries for transition and resilience

The current focus of FMIA is on the creation of new industries and technologies. Of the support measures announced in the 2024-25 budget, most target industries which are new to Australia (such as renewable hydrogen, critical minerals processing, batteries, photovoltaics), or the development of new to Australia technologies (green metals, clean energy technologies).

However, Australia's net zero transition will also require broader adaptations across our economy. Lower-emission technologies will need to be developed and deployed across the supply chain in the manufacturing, construction, transport and infrastructure industries, amongst others. Successful transition requires both the development of new industries and the restructuring of existing ones.

Existing industries may benefit indirectly from the creation of new industries by way of forward linkages – for example, the manufacturing of clean energy equipment that can be deployed

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

elsewhere in the supply chain. But they also face their distinct transition and resilience challenges that go beyond the provision of inputs from FMIA-supported suppliers. In some cases, existing industries will also compete with new entrants for capital and skills, both of which are in short supply.

It is therefore welcome that the National Interest Framework explicitly countenances offering FMIA support to existing industries as well. Criteria for the net zero transformation stream include any sector which is energy intensive, and whether they can reduce either their own emissions or those in other areas of the economy. The economic resilience and security stream identifies any sector which is part of vulnerable supply chains, or is required by other sectors necessary for security. Appropriately, neither stream imposes a 'new to Australia' requirement.

It is therefore essential the FMIA extend its focus to supporting existing industries for transition and resilience. As a first step, sectoral assessments should be conducted for all areas identified as critical for transition or resilience, irrespective of whether they are established or new to Australia. Future decisions on FMIA support should ensure existing industries receive proportionate attention. FMIA should also align with existing policy initiatives – such as the NRF, ERF, ARENA, the Powering the Regions Fund and others – which are resourced to offer support to existing industrial capabilities.

5. Deeper policy alignment with wider industry and regulatory policies

FMIA shares objectives with, and functions alongside other recent industry policy initiatives. Principal among these are the National Reconstruction Fund (NRF) and the Industry Growth Program (IGP). These are new and significantly resourced initiatives to commercialise and scale new industries, which have considerable overlap with both the net zero transition and economic resilience streams.

The existing operational activities of the Clean Energy Finance Corporation (CEFC), Australian Renewable Energy Agency (ARENA), Export Finance Australia (EFA) and the Northern Australian Infrastructure Fund (NAIF) also partially overlap with FMIA's targeted sectors. The regulatory functions of DISR and DCCEEW and their agencies, and activities of the newly-established Net Zero Authority, will materially impact on investment competitiveness in FMIA areas.

Activities undertaken within the National Interest Framework will interact with programs managed by several Commonwealth agencies, and those interactions will extend beyond the initial conduct of sectoral assessments. In determining appropriate forms of support, decisions will need to be made whether new policy measures are required, or whether an existing framework managed by a different agency and/or governed by different legislation is more appropriate.

The success of the FMIA will in large part be determined by how its targeted forms of support align and positively interact with these broader industry and regulatory policies. Potential investors will not consider FMIA support in isolation, but in the context of the whole package of policy and regulatory conditions on offer in Australia.

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

The interdependence between FMIA and other policy frameworks clearly warrants alignment and coordination. The *FMIA Bill* anticipates and enables such coordination[3], albeit in the limited context of the Treasury conducting initial sector assessments. FMIA-related measures in the 2024-25 budget also resource allied regulatory reform processes for financial markets regulation, approvals reform and skills partnerships.

The 2024-25 budget also includes resources for the development of a 'single front door' for FMIA. This will function as a point of contact for major investors, and coordinate investment attraction and facilitation activities. It is imperative that this new agency be developed and begin operation as soon as possible. While a new investor-facing investment facilitation agency will coordinate policy on a project-by-project level, it will not be equipped to manage the whole-of-government coordination required for general policy development.

A greater degree of policy coordination is therefore required. At present, no mechanisms exist for policy coordination amongst the various government agencies responsible for FMIA and related industry and regulatory policies. This risks inconsistent, and potentially conflicting, approaches being taken across government. An agency with authority to coordinate across program delivery and regulatory areas is required to ensure coherence for the FMIA agenda.

6. Ensure community benefit principles are complementary with objectives

The National Interest Framework identifies five community benefit principles (CBPs) which recipients of FMIA support are expected to advance. Broadly, these relate to employment conditions, skills and training, community and First Nations engagement, local industrial capabilities, and tax transparency and compliance. Committed community benefits will be included in FMIA Plans and function as a condition of support offered.

The intention to ensure community benefit from public investment is laudable. However, as currently configured these CBPs may not be implemented in a manner complementary with the objectives of FMIA.

First, the CBP definitions provided in the *FMIA Bill* remain vague and difficult to interpret in the context of a specific investment proposal. For example, the requirement that a project "promote safe and secure jobs that are well paid and have good conditions"[4] includes four key terms which remain undefined in the legislation and are subject to significant interpretation.

Second, the CBPs will prove challenging for project proponents to demonstrate prior to the awarding of support. Project proponents may be unable make commitments regarding employment, training, local suppliers or other CBP requirements prior to the investment decision. It will also prove challenging for complex and/or innovative projects, where technological or market developments during the life of the project may change commercial requirements.

Third, CBPs are project-specific, may not be compatible with all forms of support anticipated

[3] *FMIA Bill*, s8(6)
[4] *FMIA Bill*, s10(3)(a)(i)

The Australian Industry Group
51 Walker Street
North Sydney NSW 2060
Australia
ABN 76 369 958 788

under FMIA. They are more easily implemented in instances where support is offered directly to a specific investor (such as a grant or loan). But for support offered to a range of investors – e.g. common-user infrastructure, R&D centres, cooperative training programs – there may be multiple current and future investors covered. Other forms of support, such as approvals reform, are general regulatory policies which do not imply a relationship with any specific investor. It remains unclear how CBPs will be implemented across this more diverse range of potential support measures.

As a consequence, the CBPs as presently defined in the *FMIA Bill* may reduce policy certainty and increase investment risk. This runs counter to the objective of increasing investment in targeted sectors. Further development and consultation on the definition and implementation of the CBPs is essential to ensure they are complementary with the objectives of FMIA.

Should you wish to discuss the matters raised in this submission, please contact our Head of Industry Policy and Development, Louise McGrath, at [redacted]

Sincerely yours,

[redacted]

Innes Willox
Chief Executive - Ai Group