



Australian Government
Productivity Commission

July 2024



Future Made in Australia legislation – Senate Economics Legislation Committee inquiry

Productivity Commission submission

The Productivity Commission acknowledges the Traditional Owners of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to their Cultures, Country and Elders past and present.

The Productivity Commission

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website (www.pc.gov.au).

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An appropriate reference for this submission is:

Productivity Commission 2024, *Submission to the Future Made in Australia Bill 2024 [Provisions] and the Future Made in Australia (Omnibus Amendments No. 1) Bill 2024 [Provisions] (FMIA)*, Canberra

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The Productivity Commission welcomes the opportunity to make this submission to the Senate Economics Legislation Committee inquiry into the Future Made in Australia Bill 2024 [Provisions] (the FMIA Bill) and Future Made in Australia (Omnibus Amendment s No.1) Bill 2024 [Provisions].

The Commission has published several reports and speeches over recent years analysing industry assistance, including within the context of some of the market failures that the Future Made in Australia (FMIA) program seeks to address. These include *Vulnerable Supply Chains* (2021), the *Productivity Inquiry* (2023), *Optimal Industry Policy* (2023), and the 2021-22 and 2022-23 editions of the *Trade and Assistance Review* – the Commission’s annual stocktake of industry assistance in Australia.

More broadly, the Commission and its predecessor bodies (the Industry Assistance Commission and the Industry Commission) have a long history of measuring, reporting, and making recommendations on industry assistance in Australia.

The FMIA program is proposed in the context of major shifts in the broader economic environment, including the net zero transition and growing geoeconomic fragmentation. It aims to build supply chain resilience, encourage domestic emissions abatement, and position Australia to benefit from the global net-zero transition.

Careful policy design and implementation will be critical to the management of key risks, however. If poorly designed, industry policy such as the FMIA can be costly for governments, act as a form of trade protection, and distort the allocation of Australia’s scarce resources towards activities that Australia is not best placed to undertake.

The Commission’s advice is provided in the hope of managing such risks.

The inclusion of the National Interest Framework in the FMIA Bill is welcome

The Commission’s body of work on industry assistance points to the importance of using clear and robust policy frameworks to inform interventions to ensure compelling value for money.

The Commission welcomes the Australian Government’s adoption of a clear framework – the National Interest Framework (NIF) – to assess sectoral interventions under the FMIA program.

The NIF, as outlined in the *Future Made in Australia National Interest Framework Supporting Paper* (the Supporting Paper) published in May 2024¹, provides for the allocation of FMIA funding under two streams – the net zero transformation stream and the economic resilience and security stream.

- A sector could qualify for support under the net zero transformation stream if it was judged to have grounds for sustained comparative advantage in a net zero global economy, and if public investment was judged to be necessary for the sector to make a significant contribution to emissions reduction at an efficient cost.
- A sector could qualify for support under the economic resilience and security stream if some level of domestic production capability was judged necessary or efficient to deliver adequate economic resilience and security; if a disruption to supply of that good or service was judged to have unacceptably high impacts on safety, economic stability, or wellbeing; if the private sector would not invest in this capability without public investment; and if that public investment could address the risks to economic security and resilience in a way that represented ‘compelling public value’.

¹ [Future Made in Australia – National Interest Framework \(treasury.gov.au\)](https://www.treasury.gov.au)

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The Commission particularly welcomes the emphasis on the efficient delivery of policy objectives, and the additional detail provided by the Supporting Paper on the operationalisation of these tests, including:

- identifying the main policy rationales for government financial support to a sector, including where assistance is necessary to indirectly price externalities at efficient levels, and to support activities that efficiently build economic resilience
- ensuring financial support is only offered when it delivers compelling public value relative to alternative approaches such as including industry-led solutions, trade partnerships, regulatory approaches or international supply agreements.

The Commission considers that these tests will help ensure that FMIA support is targeted to policy goals, is more likely to be an effective use of public money, and is more likely to only divert resources from other industries where there is compelling public value to be gained over competing uses.

For these reasons, the Commission welcomes the incorporation of the NIF into the FMIA Bill.

But the role of the NIF can be enhanced

The NIF should play an important role in ensuring that value for money is achieved through FMIA assistance. FMIA sector assessments that test the extent to which a sector aligns with the NIF are an essential component of the FMIA Bill. However, the role of the NIF in guiding interventions and resources towards their most valuable use can be enhanced by making the following changes to the FMIA Bill:

1. **FMIA industry support should be limited only to sectors that pass NIF sector assessments.** Sector assessments are not currently required by the FMIA Bill for sectors to be eligible for FMIA funding. As currently drafted, sector assessments are only required if requested by the Minister. Subsection 9 (1) of the FMIA Bill requires that the sector assessment be provided to the Minister but this does not explicitly preclude FMIA support from being provided to sectors not found by an assessment to satisfy the NIF tests. Allowing sectors to bypass the NIF process would undermine its role in disciplining spending.
2. **Programs already announced under the FMIA program to-date should be subject to the NIF sector assessments.** It is unclear to what extent initiatives already announced as part of the FMIA – such as the Solar Sunshot program and the Battery Breakthrough Initiative – were subject to FMIA sector assessments prior to announcement.² Subjecting these areas to a rigorous and transparent sector assessment would build public confidence in the case for their support.
3. **Data and reasoning underlying NIF sector assessments should be made public.** Subsection 9 (2) of the FMIA Bill requires that sector assessments be tabled in Parliament within 30 sitting days of being provided to the Minister. Ensuring that data and reasoning underlying any sector assessment also be made public would strengthen the transparency of the sector assessment process.
4. **Community Benefit Principles (CBPs) should be applied in a transparent way that supports the efficient achievement of the NIF objectives.** The Commission's understanding is that the CBPs are

² For example, the Supporting Paper argued that there are grounds for believing that Australia can have an enduring comparative advantage in renewable hydrogen, green metals, and low carbon liquid fuels (Australian Government 2024, pp. 15–20). It also argued that critical minerals processing is consistent with the principles of the economic security and resilience stream (Australian Government 2024, p. 24). However, the Supporting Paper also highlighted that many of Australia's trading partners are diversifying into clean energy manufacturing and argued that supply chain resilience concerns in the solar panel and battery sectors might also be managed by developing and maintaining close trading relationships with those countries (ibid, p.28-29).

designed to apply to activities in sectors that have been found to pass a rigorous NIF assessment, rather than providing an alternative pathway to FMIA support. The subordinate role of the CBPs in assessing sectoral FMIA support could be more clearly articulated, however. We further note the CBPs should be implemented to support the efficient achievement of the primary policy goals of the FMIA program. To achieve such an outcome CBPs should be applied via eligibility rather than merit criteria and be focused on achieving standards that are adequate and not overly prescriptive.

5. **NIF sector assessments should be periodically evaluated and reviewed by an independent process or body.** The Supporting Paper states that “[g]iven that technology and global markets will continue to evolve rapidly, sectors prioritised under the Framework will be reviewed regularly” (ibid, p.6). This requirement for regular review is not explicitly reflected in the FMIA Bill, however. The FMIA Bill only provides Ministerial discretion over whether sectors previously subject to a sector assessment process should be reassessed (subsections 6 (1) and 6 (5)). Requiring periodic independent evaluations of whether support for a sector under the FMIA is achieving the goals of the NIF in a way that represents compelling public value would enhance transparency, and support public confidence in the program.
6. **Off-ramps should be built into policy design, and triggered in the event that FMIA supports are not achieving their policy goals.** FMIA support should be time-limited and withdrawn from activities and sectors that are found by independent periodic reviews (set out in 5 above) not to be achieving net community benefits and their stated policy goals in a cost-effective way.

How sector assessments are undertaken will be important

Amending the FMIA Bill to address the points raised above will promote the centrality of the NIF to the allocation of FMIA industry assistance.

However, whether that ultimately directs public funding to its best use will ultimately turn on the strength of the sector assessment process itself.

Assessments under the net zero transformation stream require an assessment of whether an industry is likely to have a sustained comparative advantage in a global net zero economy.

The 2022-23 edition of the Commission’s annual *Trade and Assistance Review* explored a number of empirical methodologies to assess which sectors a country has a comparative advantage in. This exploration demonstrated the challenges of doing so, particularly when attempting to predict which sectors a country may reasonably expect to enjoy an enduring comparative advantage in the future. These challenges highlight the importance of making assessments of future comparative advantage in sector assessments public and building in pre-defined off-ramps if those assessments prove inaccurate over time. Such assessments would form an ongoing evidence base and inform future policy decisions.

The means by which Australian policy makers might meaningfully assess whether industry assistance is a cost-effective way of enhancing supply chain resilience is an area that the Commission intends to undertake further work on in the near future.