Australian Chamber of Commerce and Industry

Senate Standing Committees on Economics — Future Made in Australia Bill 2024

ACCI Submission

26 July 2024

Australian Chamber of Commerce and Industry

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1 Introduction

The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to comment on the Future Made in Australia Bill 2024 and Future Made in Australia (Omnibus Amendments No. 1) Bill 2024.

The Future Made in Australia (FMA) policy has the potential to make a contribution to the net-zero transition and build resilience in essential supply chains.

Private investment is at very low levels and FMA has the potential to stimulate private investment in relevant sectors and diversify Australia's industrial base. However, ACCI is concerned by the number of earlier announcements of projects that have since been identified as funded under FMA. It appears that the bulk of FMA funding was allocated prior to setting the guardrails for this investment.

Projects already announced including Hydrogen Headstart ($4 billion), Hydrogen production tax incentives ($6.7 billion), Critical Minerals production tax incentives ($6.7 billion), Solar Sunshot solar panel manufacturing ($1 billion) and PSIQuantum quantum computing ($1 billion), represent a combined commitment of $19.4 billion. This leaves less than $4.5 billion for new projects over the ten-year life of the FMA.

It is important that all projects previously announced are thoroughly assessed under the FMA criteria. Before these projects can proceed it must be clear that they are consistent with the National Interest Framework, have gone through a thorough sector assessment process and deliver community benefits. In particular, it needs to be shown that these projects are in a sector where Australia can be internationally competitive and investment in the project delivers value for money.

ACCI note the concerns raised by the Productivity Commission on the use of “behind the border assistance” in the form of grants, subsidies and tax concessions.[1] This form of assistance will grow further as the FMA begins to provide assistance to select industries. The Productivity Commission cautions that FMA must be subjected to “rigorous and public cost benefit analysis” to avoid becoming an indirect form of trade protection. FMA must focus on sectors where Australia has a clear comparative advantage. There must be an exit strategy for investments that prove to be unsuccessful. Failure to do so risks allocating support to industries that may not have reasonable long run prospects, redirecting scarce resources away from sectors that do have comparative advantage.

With right policy settings, FMA has the potential to expand Australia’s manufacturing base, particularly to develop industries that will support decarbonisation, as well as build capability in advanced technologies and defence. Given the magnitude of this investment ($22.7 billion), it is essential that all project receiving funding are appropriately scrutinised, so that it delivers real returns to the economy and the Australian public.

[1] Productivity Commission 2024, *Trade and Assistance Review 2022-23 – Annual Report Series*. Australian Government. https://www.pc.gov.au/ongoing/trade-assistance/2022-23/tar-2022-23.pdf

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2 Amendments to the Export Finance and Insurance Corporation

The Omnibus legislation amends the Export Finance and Insurance Corporation Act to expand the mandate of Export Finance Australia (EFA), enabling it to invest in domestic projects in the national interest.

EFA is an investment vehicle that provide finance for export trade and overseas infrastructure development. Its mandate has been expanded over the years to provide support to other investment vehicles, including:

- Australian Infrastructure Financing Facility for the Pacific
- Northern Australia Infrastructure Facility
- Housing Australia
- National Reconstruction Fund Corporation.

There is sense in using an existing investment vehicle, such as EFA, to assess projects and deliver funding for FMA, rather than setting up a new agency.

However, in expanding the role of EFA to support FMA, it is important that funding for its existing role and the other investment vehicles it oversees, is not diluted or wound back. The budget for EFA's existing activities must be maintained, with additional funding and resources provided to enable it to undertake the extra activities under FMA.

A clear division between EFA's existing export and investment functions and the new functions under FMA needs to be established. ACCI doesn't want to see the focus of EFA narrowed down, nor its existing funds redistributed, to meet the investment priorities under the FMA.

ACCI welcomes the provisions to make the Minister of Finance jointly responsible for the EFA. This will enhance the governance and oversight of EFA, ensuring greater integrity in its decisions.

3 Amendments to the Australian Renewable Energy Agency

The legislation expands the mandate to Australian Renewable Energy Agency (ARENA) through amendments for the ARENA Act to enable ARENA to support the Innovation Fund (IF) under FMA. The IF will play an essential role in driving research and development, demonstration, commercialisation, manufacturing and deployment of renewable energy technologies.

Recent developments, such as Fortescue stepping back from its green hydrogen ambitions due to the slow development of electrolysers and the difficulty in scaling up green hydrogen production, underscore the challenges with emerging technologies.[2]

The IF will play a critical role in supporting early-stage developments, by helping to address current R&D roadblocks and facilitate commercialisation within these clean energy industries. Funding support for first-of-a-kind demonstrations and production trials is an essential step before industries are able to scale-up and commercialise operations.

[2] Australian Financial Review Fortescue's green hydrogen pivot shakes faith in Labor's Headstart strategy (afr.com)

Expanding ARENA's responsibilities to administering key avenues of support under the FMA agenda, including the IF, will significantly increase ARENA's workload, both strategically and operationally. To ensure that ARENA is still able to carry on its existing work, it is vital that ARENA is provided with additional resources and funding to administer the additional activities under FMA. ACCI doesn't want to see work currently being undertaken by ARENA overtaken by the new responsibilities of FMA.

While ARENA is an independent agency, given the magnitude of the funding it will administer under FMA, there is benefit in providing a mechanism for the Finance Minister to have oversight of key governance arrangements. That is, as long as the Minister is not able to influence day to day decision-making of ARENA. This will improve the integrity of ARENA's governance and ensure the FMA funding is properly managed.

The legislation amends ARENA's functions, to enable it to provide financial assistance to the manufacture of renewable energy technologies as well as related electrification, energy efficiency and enabling technologies. However, this does not extend to natural gas, which has an equally important role of gas in the energy transition. Natural gas is essential to provide stability to the electricity network (through gas peaking power generators), as well as for high heat applications until green hydrogen can be developed, commercialised and provided at an affordable price to support heavy industries. It is important that in the short to near term, support through the FMA is available to projects that utilise a combination of natural gas and renewable energy. The inclusion of hybrid projects under ARENA funding is critical. These projects play a vital role in the development of technologies and infrastructure needed during the transition to renewables.

4 National Interest Framework

ACCI agrees that the National Interest Framework (NIF) streams of the net zero transition and economic resilience and security are priority areas for investment. Market failure is common in these streams. Externalities, such as carbon emissions and the impacts of disruption to vulnerable supply chains, can be difficult to price appropriately. Government intervention can be necessary to address these market failures and attract private investment to these streams. Removing barriers to investment and assisting industries within these streams to grow, can contribute to Australia's future international competitiveness and economic prosperity.

While the NIF identifies two priority streams, these are high level and loosely defined. There is no clear explanation of what the NIF entails. Neither the legislation or explanatory memorandum, nor the supporting paper available on the Treasury website, set out clear and systematic assessment criteria for the National Interest Framework. This leaves room for interpretation of what is in the national interest.

Greater detail on the NIF is needed, with clear and detailed criteria for the assessment of projects that are in the national interest, to ensure that public investment by FMA is spent appropriately. If clear assessment criteria are not provided, there is a real risk that FMA funds can be redirected for other purposes or to meet political objectives.

Further, while the NIF is focused on two streams — net zero transformation and economic resilience and security — there are other industries that are also worthy of consideration for support under FMA. Australia has significant comparative advantage in areas such as agriculture and food processing, mining and minerals processing (beyond critical minerals), as well as significant potential in advanced manufacturing such as artificial intelligence (AI) and robotics, due to our highly educated and skilled workforce. Consideration should be made to extend the NIF streams to support emerging technologies in other industry sectors that are also of importance to the Australian economy and where Australia has been shown to have a comparative advantage.

4.1. Net-Zero Transformation Stream

The net zero transition is one of the major challenges facing the world in modern times. It is imperative that Australian industries adapt to the more stringent emissions requirements.

The NIF for the net zero transformation stream is focused on sectors that:

- are energy intensive sector and capable of substantially reducing emissions using renewable energy resources
- have outputs with low embodied emissions or contribute to emissions reduction in other sectors
- can leverage Australia's highly skilled workforce
- can achieve economies of scale
- align with international trading partners future needs

Australia's involvement, and any public investment, in the net zero transition must be fully informed and focused on areas where we have the greatest competitive advantage and are likely to have the greatest impact.

Many other countries and trading blocs, particularly the United States and European Union are investing heavily in their own net zero transition. Australia cannot expect to compete with the high level of public funds invested in programs such as the US Inflation Reduction Act and EU Green Deal. Any investment by Australia must be targeted and focused on areas where Australia has a comparative advantage. Where production in Australia is not competitive, we should be importing these goods from other countries.

4.2. Economic resilience and security stream

The Economic Resilience and Security Stream helps to safeguard sectors most susceptible to supply chain disruptions. This stream recognizes that certain essential products and services face heightened risks from both international and domestic shocks. Investment in these sectors is needed to fill capability gaps and reduce the risk of disruptions.

The economic resilience and security stream focuses on sectors where:

- Global supply chains are concentrated, and domestic capacity is necessary to deliver economic resilience and security
- Private sector will not deliver the necessary investment without government support.
- Supply chains are highly concentrated and vulnerable to disruption.
- Maintenance or development of the sector is necessary for Australia's security and resilience.
- Supply chains are able to absorb, adapt, or transform during disruptions.

Care is needed with this approach to ensure that it is not just trying to 'pick winners' in sectors that are a priority for the government, but don't have a long-term comparative advantage for Australia. Further, FMA should not be used to develop industries that are not sustainable over the long-term without continuing government financial support.

Australia should continue to develop strong trading partnerships to benefit from low-cost technologies manufactured in other countries with highly competitive manufacturing cost bases for reasons including economies of scale. For example, the European Union, United States and Canada are investing heavily in the production of solar photovoltaic (solar PV) sectors, to derisk their reliance on production in China, which currently meets 80 per cent of global demand for solar PV panels. Australia cannot compete with the considerable public investment by these countries and the scale of their domestic market to support the economies of scale needed for these industries. Instead, Australia should consider strengthening trade agreements with these countries for the supply of these products. This is likely to reduce the cost of renewable energy in Australia, and free up funds for investment in other areas where we may have a greater comparative advantage.

5 Sector Assessments

ACCI is concerned with the approach taken to deliberately loosely define the term 'sector' to give the Minister the discretion in identifying a sector in the broader or narrow sense. As outlined in the legislation:

> *"Sector is not a defined term in the Bill but relies upon its ordinary meaning. The Minister has the appropriate flexibility to identify a sector in a broad or narrow sense……The scope of each sector assessment may be defined through the Minister's direction to the Secretary".*[3]

Without clear criteria for defining what a sector is, it makes it difficult to know the extent to which a sector aligns with the NIF. Moreover, with the NIF designed as an overarching framework, there is greater reliance on the sector assessments to ensure the integrity of the investment made under FMA.

The sector assessments need to be independent, robust and informed by a range of views, expert advice, information sources and future market conditions that could impact the sector's transition.

In conducting, a sector assessment, Secretary must consider the following factors:

- Australia's competitiveness in that's sector,
- the orderly transition for the sector towards the net zero transformation through the use of renewable energy,
- building the capabilities of the Australian people,
- improving the Australia's economic resilience and security and
- whether the private investment in the sector will deliver value for money.

The sector assessments should not be required to satisfy all of these factors for every sector assessment. The factors need to be assessed according to each stream. However, all sector assessments must include consideration of whether Australia can be competitive in the sector and that investment in the project delivers value for money.

As noted above, ACCI is concerned that projects like Solar SunShot and PSI Quantum, which have already been announced as FMA projects, have not been assessed under the NIF, or subjected to a

[3] Future Made In Australia Bill 2024, Future Made In Australia (Omnibus Amendments No. 1) Bill 2024

thorough sector assessment process. Before these projects can proceed, it needs to be shown that they are consistent with the NIF and are in a sector where Australia can be internationally competitive and investment in the project delivers value for money.

The Future Made in Australia (FMA) Fund needs to operate as a standalone initiative, independent of existing programs like the $15 billion National Reconstruction Fund, $20 billion Rewiring the Nation Plan, $10 billion Housing Australia Fund, and the currently uncosted Capacity Investment Scheme. This ensures the FMA complements these efforts rather than creating overlap. Even where there is some alignment in priority areas, the FMA shouldn't replace funding allocated to these existing projects or disrupt their established policy frameworks.

6 Community Benefit Principles

The Community Benefit Principles are intended to utilise the substantial funds in FMA to address a range of priorities beyond the delivery of projects.

In order to be eligible for funds to deliver projects, companies will need to produce not just a project proposal, but written plans that meet government approval with regard to five other specified principles.

The requirement that companies not just be able to execute a project efficiently, but also meet a range of extra hurdles is likely to drive up project costs for taxpayers.

It is critical that FMA is not used to promote other agendas, such as arbitrary requirements in employment arrangements, by requiring the promotion of “safe and secure jobs that are well paid and have good conditions.” Mandated labour arrangements will only increase the cost of projects and reduce the economic benefits of these projects to the wider community.

Funding for Future Made in Australia projects should be determined by the classic principles of value for money for taxpayers, not a new formulation which brings in a trade union agenda of inflexible and unproductive work arrangements through the back door.

Mandating union-friendly inflexible contracting arrangements will only increase the cost of projects and exacerbate productivity problems.

Recent revelations about nefarious activities in the construction sector have raised questions about mandating union negotiated enterprise bargaining requirements, and the impact this will have on the cost of major projects, such as investments under FMA.

7 Future Made in Australia Plans

Future Made in Australia Plans must be submitted by applicants to ensure transparency and accountability. These Plans should relate to how the applicant will deliver on the project goal, rather than going beyond the goal into the range of extra areas as listed in the Community Benefit Principles that will drive up costs.

Australian Chamber of Commerce and Industry

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth, and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education, and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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