

BCA response to Question on Notice for 28 August 2024 hearing

Senate Standing Committees on Economics – Inquiry into Future Made in Australia Bill 2024

Question 1

Are business settings in the Australian economy currently conducive to investment in manufacturing?

Answer

The Business Council of Australia (BCA) submission to this inquiry noted that to best grow our economy we must, as a point of national urgency, become a more competitive place to do business. Indeed, the consistent feedback from our members is that we are no longer as competitive a destination for investment as we used to be.

Turning this position around requires a focus on getting the fundamentals right through reform of our tax system, easing the burden of regulation, a streamlined project approvals process, a high-quality skills and education system, a well-managed migration program, a streamlined foreign investment screening regime, and improvements to the workplace relations system.

Question 2

What is Australia's current supply of baseload, reliable energy and is it sufficient to support a manufacturing industry?

Answer

The Australian Energy Market Operator recently released the *2024 Electricity Statement of Opportunities*. It provides an outlook of investment requirements to maintain reliability in the National Electricity Market (NEM) over the next decade.

The report notes that "for the vast majority of the year, there are surplus generation reserves in the NEM to ensure reliable operation of the power system." Pages 47 to 49 of the report detail the generation and storage capacity of planned investments over the decade, as well as generators expected to close.

Question 3

Is gas essential for manufacturing and the net zero transition, and should it be included in this policy framework?

Answer

Gas and gas infrastructure will have a critical enabling role to play in the transition to net zero by 2050. Amongst other uses, gas will be needed to provide critical peaking and firming capacity when wind, solar and other storage is not available. This will ensure reliability and security in the national electricity market.

Gas infrastructure is also extremely reliable and ideally placed to store vast amounts of energy for times of need. At the same time, gas will continue to be needed as an industrial feedstock and as a fuel for industrial heating until viable alternatives are available.

Gas may invariably play a role in Future Made in Australia projects, for example through peaking or firming capacity or due to barriers to projects being solely reliant on renewables (e.g. technological barriers). A portfolio agnostic approach to fuels and technologies is required to meet the conditions of reliable, affordable and clean energy outcomes between now and 2050, and that includes with respect to Sector Assessments under this policy. All projects, including gas projects, should be supported through a focus on getting the fundamentals right, which includes a streamlined project approvals process.

Question 4

Is CCS essential to decarbonising industry and does it present a good economic opportunity for Australia given our landmass and that many of our trading partners - Japan, Singapore, Korea - will need sequestration?

Answer

Large scale deployment of carbon capture and storage (CCS) will assist hard-to-abate sectors and industries to decarbonise. Both the Intergovernmental Panel on Climate Change and the International Energy Agency have said that CCS will be essential to mitigating climate change. A CCS Sector Assessment could help identify the barriers and opportunities in this regard.

Question 5

Why should taxpayers - when we have a structural deficit and the cost of borrowing is between 3-4.5% compared to 0.35% just a few years ago - be paying to subsidise businesses who have access to other paths for financing?

- a. Would your members be prepared to pay more tax to cover these costs?
- b. What off ramps exist in the policy framework

Answer

Australia should not sit still while other countries are increasing their incentives, nor while they are growing their competitiveness at a foundational level. There should be firm guardrails to ensure Future Made in Australia is a success, that there is judicious use of taxpayer dollars, and that there is a sustainable and enduring policy agenda that allows business to plan confidently. As part of these guardrails, the BCA submission notes the need for suitable 'off ramps' with the scope to withdraw, or limit, funds based on outcomes being missed or achieved. There will always be a balancing act between taxpayer interests, commitments made to business and creating sovereign risk.

Question 6

Is there a genuine fear that the Community Benefit principles could just become another component of IR red tape?

- a. What impact will this have on investment particularly given the recent commencement of the right to disconnect laws, and the Fair Work Decision on Friday about collective bargaining?

Answer

There is an integrity concern that the employment-related Community Benefit Principles will lead to a situation where designated unions are able to dictate what jobs are “well paid” with “good conditions”, and therefore which projects ultimately prove successful. An example of this in practice is the “best practice industry conditions” for the construction industry in Queensland, which is, in effect, a 269-page template enterprise agreement with fixed wage increases on Construction, Forestry and Maritime Employees Union preferred terms.

The right to disconnect and the Fair Work Commission decision to make a single-interest employer authorisation (to compel multi-employer bargaining) are just two examples of several tranches of burdensome changes to workplace laws made over the past two years. These changes include, inter alia:

- changes to who can be a casual worker or independent contractor;
- same job, same pay arrangements for labour hire regulation;
- compulsory multi-employer bargaining;
- fixed term contract limitations;
- the right to disconnect;
- changes allowing a single bargaining representative to initiate bargaining without majority support;
- changes to union right of entry; and
- retrospective amendments to intractable bargaining determinations.

The combined effect of all these changes are increased legal risk and decreased flexibility in the terms of employment that businesses can offer their workforce. This will make Australia a less attractive place in which to invest and do business and risks sending jobs offshore.

Question 7

What are the practical limitations for a business in trying to complete these Future Made in Australia plans before even applying for funding - Is there any clarity about what they would involve?

- a. Is there any clarity from government of how this might duplicate existing functions - for example, FIRB disclosure requirements on tax, Australian Industry Plans? could it just be layering red tape?
- b. What impact would that have on productivity?

Answer

There is significant uncertainty around what the Community Benefit Principles will entail in practice. These principles, while positive in the broad sense, risk increasing costs, duplicating other policies already in place, and offsetting competitive gains achieved through Future Made in Australia.

The BCA submission to the inquiry recommends that the Community Benefit Principles not be narrowly or rigidly defined so as to undermine the success of the policy, calls for clarity on how they will apply in practice, and also calls for the compliance and administration costs to be minimised (recommendations 4 to 6). Similar reporting requirements should be leveraged where appropriate to minimise compliance costs for companies and administration costs for regulators by utilising already developed and understood initiatives.

Question 8

What are the risks - as the Productivity Commissioner has warned - that once you turn this tap on, you can't turn it off? - you wind up with businesses wholly reliant on the government - what would that mean for productivity and business dynamism.

Answer

As we understand, Future Made in Australia is intended to provide an overarching framework and guardrails. We consider that this is important to ensure the policy is a success, that there is judicious use of taxpayer dollars, and that there is a sustainable and enduring policy agenda that allows business to plan confidently. The BCA submission outlines a set of guardrails to help select priority industries and develop any policy response:

- All investments must be expert-led, with expert advice provided to government as the origination point.
- Expert advice should not simply identify sectors worthy of investment, but also the projects that should be prioritised and the means by which investments should be made (e.g. loans, grants, equity etc).
- The process must be open, transparent, evidence based and unimpeachably independent.
- It should be carefully targeted and avoid parameters which can be too broadly interpreted.
- There must be suitable 'off ramps' - the scope to withdraw, or limit, funds based on outcomes being missed or achieved.
- We must not invest in projects that can stand alone from the outset with private investment, or those which will never stand alone without government support.
- All investments must be in areas in which we have a comparative advantage and where the investment helps those projects get to market faster, or there is clear national interest in making that investment.

As per our comments before the Senate Inquiry, we would also emphasise that, when assessing the weight attached to various criteria for determining whether to grant support, the far greater majority of weighting should be attached to whether a project increases competitiveness and productivity.

Question 9

Should PsiQuantum and Solar Sunshot have gone through the same proposed rigour this legislation is attempting to put in place?

Answer

As we understand, some assessments have already been undertaken by Treasury in the context of the *Future Made in Australia National Interest Framework Supporting Paper*. Sector Assessments for the five sectors already identified as part of Future Made in Australia could help provide transparency and build confidence in the broader Future Made in Australia policy framework.

We believe the quantum computing sector would benefit from a broader Sector Assessment, as there may well be a case for providing support to other operators within the sector.

Question 10

What are your concerns about the scope of the sector assessments, and why you'd prefer such activity to be undertaken by the Productivity Commission.

Answer

Sector Assessments are welcome to provide expert advice to government for identifying how sectors align with the National Interest Framework and opportunities to address barriers to private investment. This is critical to ensure Future Made in Australia is a success. Section 3 of the BCA's submission outlines the range of issues that Sector Assessments should consider.

The BCA has recommended that the Productivity Commission be the responsible body for conducting Sector Assessments, reflecting its skills and expertise, the recently introduced Statement of Expectations, and the opportunity to enhance confidence in the independence of Sector Assessments.

As per above, we also consider that the core purpose of this policy must be to increase Australia's competitiveness and productivity. The Productivity Commission is best placed to make this assessment.

Question 11

Would you say on the policies announced to date - are there key areas where Australia has established comparative advantages missing from this framework?

- a. Does Australia have comparative advantages in manufacturing solar panels?
- b. How do your members feel who aren't eligible for the forms of support that have already been announced about being excluded - I imagine if you're a manufacturer who has been here for fifty years employing Australians you might feel there isn't much here for you?

Answer

Some assessments have already been undertaken by Treasury in the context of the *Future Made in Australia National Interest Framework Supporting Paper*. Sector Assessments for the five sectors already identified as part of Future Made in Australia could help provide transparency and build confidence in the broader Future Made in Australia policy framework. We would welcome Sector Assessments being carried out with respect to other sectors.

We note the Future Made in Australia package is designed to incentivise investment currently in five sectors of the economy, but we must not lose sight of the investment fundamentals for the rest of the economy that contributes the vast bulk of national output. The fundamentals for investment apply equally for all projects.

Question 12

Is the current foreign investment framework fit for purpose to bring in foreign investment?

- a. What reforms could be made here?

Answer

The Foreign Investment Review Board's (FIRB) powers and regulatory reach have been significantly expanded in recent years, first through a temporary lowering of monetary thresholds at the onset of the pandemic, and then through major national-security related legislative reforms. These changes have been

important to support public confidence in the investment screening regime, particularly to keep pace with emerging technologies and the changing strategic environment. However, while FIRB is empowered to identify and address these risks, much more can be done to address regulatory frictions and modernise the FIRB process. The changes announced earlier this year around committing to improving approval times and making the process more transparent, represent a step in the right direction.

The BCA's Pre-Budget Submission 2024-25 called for a holistic review of foreign investment settings and facilitation in the model of the United Kingdom's Harrington Review. The terms of reference should include the FIRB process and application fees and the extent to which these are acting as barriers to investment.

Question 13

We heard at Senate estimates that the commitment to a single front door was a commitment to conduct a review - to your knowledge is that function in Treasury operational and have you had any members utilise the service - or clarity on what it will actually do?

Answer

The Future Made in Australia fact sheet published as part of the 2024-25 Budget stated the new front door for investors will:

- provide a single point of contact for investors and companies with major investment proposals;
- deliver a joined-up approach to investment attraction and facilitation;
- identify priority projects related to the Future Made in Australia agenda;
- support accelerated and coordinated approval decisions; and,
- connect investors with the Government's specialist investment vehicles.

We understand that the final design of the front door will be developed in consultation with stakeholders.