

From: Simon Mottram

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Cc:

Subject: Private Submission: Inquiry into raising the level of productivity growth

**RE: Inquiry into raising the level of productivity growth
in the Australian Economy**

Dear Honourable Member Mr. Craig Thomson,

In response to the committee's request for submissions on this inquiry I would like to offer the following views on some of the focus points listed in the media release.

SUMMARY:

Point G: The adequacy of the level of investment in public infrastructure;

In addressing the level of investment in public infrastructure it is also necessary to determine the key areas where this investment should focus, if growth is to be the principal outcome.

Point H: The level of resources devoted to research and development

R&D is an area of business that responds to opportunity, and it is generally internally funded, independent and self serving. R&D will always be directed at areas with potential for growth or new business, so the issue of resources devoted to R&D revolves mostly around creating R&D opportunity.

Point D: The contribution made by microeconomic reform to the permanent improvement in the growth rate of productivity and the continuing effectiveness of the microeconomic reform agenda;

In addressing any analysis of contribution made by microeconomic reform to the permanent improvement in the growth rate of productivity and its effectiveness, the core part of any reform agenda should be a platform built on positive growth oriented action rather than passive reforms.

Point J: The key reforms and measures that can be undertaken to lift Australia's permanent rate of productivity growth

Within the scope of Point J and additionally recalling that "The Committee will inquire into, and report on, the key factors influencing Australia's productivity growth rate, focusing on, **but not limited to...**", the following items should also be considered:

J.a Government/Private Sector Joint Ventures:

J.b Government/Private Sector Interaction:

SUBMISSION DETAIL:

Point G: The adequacy of the level of investment in public infrastructure;

When looking at the adequacy of investment in public infrastructure, the question also contains the challenge of not just the level of investment, but investment in what style of infrastructure.

In recent decades it would be reasonable to say that Australia has spent considerable sums on numerous infrastructure projects around the country. However Australia has also experienced a prolonged period of inactivity in developing major infrastructure projects that promote growth. In addressing the level of investment in public infrastructure it is also necessary to determine the key areas where this investment should focus, if growth is to be the principal outcome.

To Exemplify:

Looking back in Australia's history significant periods of growth have ensued after numerous economic and/or fiscal reasons and changes in the global economic climate. However, in part there are many occasions where significant infrastructure helped as a platform to such growth. Examples from earliest times to more modern times include: major interstate rail and highway connections, the water pipeline to Kalgoorlie, the Snowy Rivers Project or the Ord River Irrigation scheme. When considering the past 20 years there is a conspicuous lack of investment in similar projects with such a degree of growth oriented vision.

A modern example of how this might have worked can be seen in recent West Australian history. At a previous election the then opposition went to the polls on a mandate of bringing water from the north to the south of WA. Fundamentally a sound idea, bringing a small portion of water from point A which has a huge excess, to point B which has a shortage. A permanent solution to this problem could have lasting ramifications for decades, not only for populations in southern towns/cities, but also for manufacturing, farming (of all types), mining and others, particularly for those with a strong requirement for water resource availability and sensitivity to input costs.

In simple terms infrastructure projects with long term growth oriented vision can assist in significantly increasing the intensity of a growth cycle, or help sustain productivity or moderate growth in a downward cycle. In this example, almost limitless water supply to major industrialised areas of WA removes a major hurdle preventing industrial growth. It would also provide security and certainty, in supply and pricing of water resources, thus allowing industry to plan further into the future, or tackle projects with greater risk, or need of greater investment where water is an issue.

Now imagine a similar pipeline on the eastern seaboard, drawing water from far north tropical QLD and supplying not only every drought stricken city from Brisbane to Melbourne, but potentially able to revitalise the Murray River with excess supply. Imagine the possibilities for growth in farming and industry throughout 3 states in Australia that depend on the Murray Basin, from NSW through VIC and into SA. Additionally, industry water supply issues in the cities associated with those states would cease to exist in the foreseeable future, no longer restricting growth in manufacturing.

Point H: The level of resources devoted to research and development

The level of financial resources currently devoted to Research and Development (R&D) from Government is in general terms perhaps sufficient. However, the devotion of resources to R&D from an implementation or incentive perspective, in most likely insufficient. The key question is the type of resources required to stimulate R&D.

R&D is an area of business that responds to opportunity, and it is generally internally funded, independent and self serving. R&D will always be directed at areas with potential for growth or new business, so the issue of resources devoted to R&D revolves mostly around creating R&D opportunity.

To Exemplify:

- The medical industry has a very high level of R&D as it translates directly into new pharmaceuticals with enormous sales potential.
- Australia could benefit in the short term from a higher level of R&D into Clean Coal technology. Such technology would have massive export potential to all the customers that we sell coal to, thus unlocking a new revenue stream in the export of this technology. However there is no incentive to do so, as policy restricts interest in creating a market advantage in clean coal to get this process started.
- On a Global perspective the World would benefit from Carbon Emissions Reduction, but for our part in Australia policy restricts the incentive for R&D. The current policy is finalistic in that it does promote new R&D in this area in order to look at ways to physically reduce emissions, rather than trading carbon credits to justify them while not actually reducing them. Again looking at clean coal technology in the global scenario, coal production volumes in Australia are not likely to change significantly, only the ratio of local consumption to export, with the sum total of coal production still being burnt somewhere in the world. Thus rolling out clean coal technology to every customer creates a genuine reduction in emissions. All that is required is policy stimulus to kick start R&D.

In summary the level of resources are lacking, but principally in the area of policy support and reform. These areas could be quickly reassessed by Government without the need for significant monetary commitment.

Point D: The contribution made by microeconomic reform to the permanent improvement in the growth rate of productivity and the continuing effectiveness of the microeconomic reform agenda;

It could be said that the contribution made by microeconomic reform would appear to be steadily declining in effectiveness. But, it could also be said microeconomic reform has increased in intensity as the Government continually strives for ways to “tweak” the system. That is to say, the key issue is not the excess or lack of contribution, but rather the methodology with which reform agenda is applied.

Over the last 2 decades contribution by microeconomic reform has trended away from a reform agenda with a positive approach (how to grow income streams or create new income streams), to a passive agenda (how to increase revenue from unchanged existing streams - taxes, fees and charges) thus reducing the effectiveness of the reform agenda.

Thus in conclusion, in addressing any analysis of contribution made by microeconomic reform to the permanent improvement in the growth rate of productivity and its effectiveness, the core part of any reform agenda should be a platform built on positive growth oriented action rather than passive reforms.

To Exemplify:

Recently there was a change in the implementation of Section 23AG (foreign income tax exemption).

Background: *Section 23AG reduces compliance problems while bringing a constant infusion of fresh offshore capital into the economy with no material drain on the country. Treasury estimates some 11,000 people earning >\$85,000 will be targeted. However these changes for the majority will only result in a huge incentive to become a non-resident or cease the activity as the rewards no longer exist in return for the additional risk/hardship, while for export labour businesses in Australia they are now burdened with a crippling disadvantage in the global market place.*

The reform agenda here has taken a passive approach, looking at potential for increase to an existing income stream while assuming the reform applied will not have any impact upon it. Microeconomic reform in this case is ineffective, creating disincentive and curtailing the growth rate of productivity in this area.

A positive approach to microeconomic reform would target maximising the effectiveness of this reform agenda. In the example used here, reform should target how best to increase the level of foreign capital injected into the economy, with no material cost to the country. Thus capturing contracts, tenders and jobs that would otherwise be lost to foreign economies that by a side effect of passive reform are now more competitive than our own, and bringing the spoils back to Australia, growing Australian businesses involved in the export of skilled labour and consulting services, thus significantly increasing tax revenue from corporate contribution.

The very enactment of Section 23AG in the 1980's was an example of positive microeconomic reform that proved to be highly effective, creating a whole new area of productivity for Australia.

Point J: The key reforms and measures that can be undertaken to lift Australia's permanent rate of productivity growth

Within the scope of Point J and additionally recalling that "The Committee will inquire into, and report on, the key factors influencing Australia's productivity growth rate, focusing on, **but not limited to...**", the following items should also be considered:

J.a Government/Private Sector Joint Ventures:

Often where the private sector is unable to go it alone on the largest of project developments, such as in the oil and gas or bulk commodities, the Government may step in to assist effectively creating a partnership with each bring complementing items to the relationship, such as building necessary infrastructure, implementing policy change, capital and technology.

In the scope of reviewing "reforms and measures that can be undertaken to lift Australia's permanent rate of productivity growth", this is one such area that should be reviewed from the perspective of creating new opportunities for Government to influence productivity growth.

Background: *The mining industry provides an ideal example of this. History shows us government took a long term view when partnering with private industry in iron ore to develop WA's interior, to create a new industry, build entire towns, roads and infrastructure. That newly created income stream has continued to grow and provide returns for more than 4 decades. Following the development of the Nickel industry, again with government assisting private industry, another new income stream was created. From this grew the stainless steel industry, downstream processing, value adding, and ultimately a huge growth in manufacturing. This was a tremendous success story. However over time the failure to maintain investment appeal has seen the manufacturing move offshore, value adding and downstream processing move offshore, and the end of world renown Australian Steel.*

To Exemplify:

Currently in Australia a massive opportunity has emerged in Uranium mining, particularly since Australia is host to the largest reserves in world. For decades we have listened to the mantra that "uranium is bad", and yet paradoxically we approve new uranium mines one after another. Uranium has much lower emissions than fossil fuels, but we cannot resolve the problems associated with waste storage and re-processing waste, for example. A problem that may be solved by an appropriate level of R&D. However, no stimulus exists yet for R&D to solve these issues (see Point H, re: creating opportunity).

Imagine that like iron ore in the past, government stepped in to ensure the future of uranium in Australia, creating partnerships of sorts with private sector companies to secure

and stimulate the future growth of this industry, while maintaining an appropriate level of governance and regulation. Additionally, if Government created the necessary conditions for growth in downstream processing and value adding, R&D would then engage this new business and with Government assistance may solve its shortcomings. Perhaps by finding new ways to store and process waste, then by finding methods to do so on a small scale (onsite at any nuclear related facility), thus removing the need for transportation of waste and the risks associated with that, and so on. From this Australia could grow not to be the world's largest supplier of yellow cake, but to be the world's largest supplier of finished nuclear products, processing technology, storage technology, waste treatment technology, construction and management of nuclear facilities, training, exporter of skilled labour and all the associated service and consulting industries. A new industry would be created that would rival the iron ore or oil/gas industries, and just as iron did, create the next great legacy for decades to come, while successive Governments to come would find an enormous windfall in a new income stream.

J.b Government/Private Sector Interaction:

From the earliest of Governments in Australia the strive for growth has always been important, and in doing so industry has flourished over the decades. In doing so we have seen the steady flow of Australia's scientific community move towards the private sector, as opposed to much older generations of Australians when such people often took up senior roles in Government. While the Government's ability in matters of a policy or fiscal nature have continually improved, the effect has led to the steady increase in the Governments reliance on review and advisory committees for matters of a more technological nature, and in some cases even if the necessary scientific skills are lacking in those bodies.

In analysing Points such as G, H and D we should also analyse the underlying tools required to achieve "best practice technology". Just as the private sector reaches out to the Government for assistance when required, the Government should have the same right if it so desires, a two way street if you like.

In conclusion when we look at "reforms and measures that can be undertaken to lift Australia's permanent rate of productivity growth", we should also review what reforms can be made inwardly, to strengthen Government and enhance its ability to plan for the future and better design its vision. In this fashion Government will always have the skills and strengths at its disposal to achieve even the most visionary tasks, and to take charge of construction and maintain ownership of key infrastructure that should always remain in public/Government hands.

To Exemplify:

In Point G water resource development in WA was used as an example. The idea of bringing water from the north to the south ultimately failed to get traction or win the imagination of the people, principally because of a lack of credibility in the methodology in completing the task. It was proposed that the task be carried out by constructing a canal which would cost billions and take at least 10 years to complete. This concept was plagued by concerns over

land acquisition, native title, ingress/egress for people and animals, and even the threat of tampering. Consequently the state decided to proceed by way of more temporary measures, installing a desalination plant, with far more limited capacity, a shorter lifespan, a larger carbon footprint, considerable power requirements and associated environmental issues related to expelling hyper-saline water into the local ecosystem.

Although admittedly with the benefit of retrospective, one could speculate what may have happened if Governments had access to same resources as private industry when considering such advanced concepts. Perhaps if open access via co-operative “think tanks” or consultative private sector bodies were available to Government, a different conclusion may have been reached. Perhaps the mining industry for example may have said: We would put in an underground pipe network as we do all over WA, using proven technology, resulting in a product that is out of sight and can be installed on existing easements such as gas, fibre optic or road easements. Perhaps the oil/gas industry would have suggested: We have ships all over the world installing subsea pipeline that will do the job. You won’t have any issues with land acquisition, native title, ingress/egress, or even tampering, as we would install it offshore, out of sight, at a much lower cost and in a lot less than the 10 years. In contrast in we are all in awe of the mighty Snowy Rivers Scheme, but have we forgotten how much internal expertise the Government had in that day and age, the ability to change and adapt however will always be within the grasp of Australians, it is a part of our spirit in this great country.

Kind Regards
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