

GOVERNMENT SENATORS' COMMENTS

General remarks

1. Government Senators welcome this Report. They do not, however, concur with all of its findings or reasoning.
2. The relatively high level of the current account deficit, and of household debt, are (as participants in the Committee's Roundtable acknowledged) to a significant extent the result of high levels of consumer demand. This, in turn, has been stimulated by the very strong economic conditions which the Australian economy has enjoyed over the past decade, characterized by historically low inflation, low interest rates, low unemployment, high wages and salaries and sharp growth in household wealth. During the past decade, Australia has enjoyed golden economic conditions which are the envy of other comparable nations.
3. One of the consequences of the macroeconomic conditions described in the last paragraph is that, while debt levels have been relatively high, debt service costs have remained relatively low. This is, in the most immediate and obvious way, the effect of low interest rates. But the capacity and willingness of Australian households to take on and service more debt is also the product of a strong labour market, in which wage and salary earners can look forward to secure jobs with relatively high levels of wages and salaries.
4. Australian households spend because they have a greater capacity to do so than has historically been the case, and a greater capacity to go into debt in order to facilitate spending, both on capital assets and on consumer goods. This has inevitable consequences both for household debt and for the current account deficit, as households increase the volume of expenditure on imported goods.
5. Government Senators do not disagree with Recommendations 1, 5 and 6. They do not agree with Recommendation 4.

Government policies to encourage exports

6. Government Senators consider that the implicit criticism of the Government contained in Recommendations 2 and 3 is unwarranted and unsupported. The suggestion, in Recommendation 3, that the Government should "introduce policies designed to bring about an improvement in the medium-to-long term average of the current account deficit", and to "increase ... international competitiveness of the export sector" borders on the absurd in suggesting that the current Government (and, indeed, its predecessors) do not already do so. Disappointingly, the discussion in the Report prefacing Recommendations 2 and 3 show little if any awareness of the broad range

of specific policies and initiatives by the Australian Government for that very purpose.

7. The Government provides a business environment that supports strong economic growth and profitability across the board, including in the manufacturing sector. The Government is also supporting Australian industry through direct budgetary and tariff assistance. The Productivity Commission estimated that the manufacturing sector received \$6 billion of budgetary and net tariff assistance in 2003-04. Much of this assistance is to promote the development of elaborately transformed manufactures (ETMs) such as automotive goods. Information on the key programs to promote the development of ETMs and services is outlined below.
8. Government Senators draw to the attention of the Committee the following programs, both industry-specific and general, which the Majority Report has apparently disregarded in arriving at Recommendations 2 and 3. The list is not exhaustive

General Programs

Commercial Ready

Commercial Ready supports innovation and its commercialisation. It provides over \$200 million per year in competitive grants to small and medium-sized businesses to support a wide range of project activities, extending from initial research and development (R&D), through proof of concept to early-stage commercialisation activities.

Commercialising Emerging Technologies (COMET)

COMET supports early-growth stage and spin off companies to successfully commercialise their innovations. COMET helps customers commercialise innovation through: raising capital from business angels or venture capital funds; borrowing money; licensing; and joint ventures or strategic alliances.

Certain Inputs to Manufacture (CIM)

The CIM Program provides import duty concessions on certain imported raw materials, intermediate goods as well as prescribed metal materials and goods. The goods must be intended for use in export enhancement or import replacement activities that would generate a quantifiable and significant benefit to Australia.

Innovation Investment Fund (IIF)

The IIF promotes the commercialisation of Australian research and development, through the injection of venture capital into small, high-tech companies in their seed, start up or early expansion stage.

Pooled Development Funds

The PDF program is designed to increase the supply of equity capital for growing Australian small and medium-sized enterprises. PDFs are private sector investment companies established under the PDF Act which raise capital from investors and use it to invest in Australian companies.

Research and Development (R&D) Tax Concession

The R&D Tax Concession is a broad-based, market driven tax concession which allows companies to deduct up to 125% of qualifying expenditure incurred on R&D activities when lodging their corporate tax return. A 175% Incremental (Premium) Tax Concession and R&D Tax Offset are also available.

Industry Cooperative Innovation Program

The Industry Cooperative Innovation Program is a \$25 million commitment to encourage business-to-business cooperation on innovation projects that enhance productivity, growth and the international competitiveness of Australian industries.

New Exporter Development Program (NEDP)

The New Exporter Development Program (NEDP) is designed to assist small and medium sized Australian companies develop their business overseas and make their first export sale. The NEDP provides a wide range of free services to new exporters including advice and information about getting into exporting, export coaching and assistance on the ground in foreign markets.

The Export Market Development Grants (EMDG)

The Export Market Development Grants scheme is the Australian Government's principal financial assistance program for aspiring and current exporters. The scheme is administered by Austrade and is aimed at encouraging small and medium sized Australian businesses to develop export markets by reimbursing up to 50% of export promotion expenses above \$15,000.

Export Finance and Insurance Corporation (EFIC)

The Export Finance and Insurance Corporation (EFIC) provides competitive finance and insurance services to Australian exporters and Australian companies investing in new projects overseas. EFIC provides medium to long-term finance facilities to the buyers of Australian exports, or to their financiers, to assist with the purchase of exports, usually capital good and/or services rather than commodities or other consumables.

Small Business Enterprise Culture Program

The Small Business Enterprise Culture Program aims to develop and enhance the business skills of small business owner-managers and demonstrate the contribution that such skills can make to business viability and growth. It will achieve this by providing competitive grants for initiatives designed to enhance small businesses access to skills development and mentoring.

Small Business Incubator Program

The Small Business Incubator Program provides funding to organisations to help meet the infrastructure and set-up costs of new small business incubators. Smaller amounts are also provided for feasibility studies and to existing incubators for enhancements. Small business incubators assist start-up and developing new businesses by providing shared premises and business services, as well as intensive business advice and support. Tenant businesses are provided with an initial place of operation and a supportive environment in which to grow their business, before graduating into the wider business community.

National Innovation Awareness Strategy

The Strategy was established to raise awareness in the community and in small to medium sized business enterprises of the importance and benefits of innovation, entrepreneurship and commercialisation.

Innovation Awareness Grants

The Grants provide support for activities and initiatives that foster entrepreneurship and awareness of the benefits of innovation across Australia.

Action Agendas

Action Agendas encourage firms to export, invest and innovate more in response to the dynamic Australian economic environment. They help

industries develop strategies for growth, agree on priorities, and commit to change. Action Agenda industries work with government on priorities for reform in areas such as education and training, workplace relations, regulations, innovation and cutting red tape.

Thirty-six industries have been covered by Action Agendas, covering one third of GDP and employment, 50% of exports and 75% of R&D expenditure. Over 500 industry and business people have been engaged in industry leaders' groups for Action Agendas, with a further 500 in working groups. Many of the ETM industries have been covered including marine industries, science industry, medical devices, electronics, pharmaceuticals, food and aerospace.

Industry-specific Programs - Manufactures

Automotive

The Automotive Competitiveness and Investment Scheme (ACIS) commenced in 2001. It is designed to provide transitional assistance to encourage competitive investment and innovation in the Australian automotive industry in the context of trade liberalisation. ACIS is expected to deliver an estimated \$7 billion to the Australian automotive industry over the period 2001 to 2015.

The ACIS Motor Vehicle Producer Research and Development Scheme (MVP R&D Scheme) will run for the duration of ACIS Stage 2 (2005-2010 inclusive). It is expected to cost \$150 million and aims to increase the amount of research and development undertaken by motor vehicle producers in Australia. All motor vehicle producers registered as ACIS participants are eligible to take part in the MVP R&D Scheme.

Textiles, Clothing and Footwear

The Textiles, Clothing and Footwear (TCF) TCF Post-2005 (SIP) Scheme is a ten-year scheme to foster the development of a sustainable and internationally competitive TCF manufacturing industry and TCF design industry in Australia by providing incentives which will promote investment and innovation. The Scheme provides for two grant types which provide subsidies for capital expenditure and innovation activities.

Pharmaceuticals

The Government's \$150 million Pharmaceuticals Partnerships Program will support an additional \$500 million (over 2004-05 to 2009-10) of high quality R&D in Australia by originator, generic and biotechnology companies. By supporting the portfolio of R&D undertaken by a company and its related bodies corporate, the program supports

company growth and adds to critical mass which can help anchor manufacturing activity in Australia.

Joint Strike Fighter

Under the Joint Strike Fighter (JSF) Program the Australian Government and Australian companies are working together to secure opportunities to supply high technology aerospace components to the next generation of air combat fighter aircraft being developed by Lockheed Martin in the US. Under the JSF Program to date, Australian companies have been successful in winning US\$60 million in work. In winning this work, Australian companies have accessed a wide range of Government programs including a number from the suite of R&D Programs and the sector specific programs.

Industry-specific Programs – Services

Tourism

The primary support by the Government's tourism portfolio for exports is via global destination marketing undertaken by Tourism Australia. In addition, policy impediments to export are identified and addressed in market-specific strategies, including in Action Plans for Korea (now in implementation) and Japan (to be developed in next 90 days), and in the Emerging Markets Strategy (initially China and India).

The Department of Industry, Tourism and Resources also engages with other Departments and agencies in addressing generic policy impediments to tourism export growth including in the areas of aviation security, immigration, customs, quarantine, education and training, environment and heritage, and export market development assistance via EMDGS.

Air access for international visitors is given particular focus in the National Tourism and Aviation Advisory Committee, and in the portfolio's engagement on specific air services negotiations and in policy reviews including the impending Review of Aviation (the Pacific Route).

The Department also funds programs stimulating supply in niche and regional tourism (Australian Tourism Development Program), cultural tourism (Tourism Indigenous Business Ready Program and Indigenous Tourism Australia) and eco-tourism (Tourism and Conservation Partnerships).

The Department assists in protecting the brand reputation of Australia's tourism exports by funding the establishment of a tourism business and

accreditation portal, funding the development of a code of conduct for tour guides, administering the industry aspects of the China Approved Destination Status scheme and developing for the Government's consideration a national approach to the protection of tourism quality.

The Department coordinates tourism sector preparedness for external shocks through its stewardship of the National Tourism Incident Response Plan and integration with whole-of-government coordination of disaster preparedness (as presently in train for avian flu).

Financial Services

Axis Australia has been established to position Australia as a global financial services centre in the Asian time zone. Axis assists financial services companies who are considering establishing or expanding their activities in Australia, provides advice to Government on policy, regulatory and market structure issues, and acts as a conduit between the private and public sectors on matters affecting Australia's development as a global financial services centre.

Obligations of Credit Providers

9. Government Senators generally support Recommendation 7, although they do not consider that the ACT *Fair Trading Act* necessarily provides the only template for uniform legislation.
10. In particular, Government Senators are persuaded that under current laws, there is insufficient transparency in the cost of credit. They therefore strongly support Recommendation 8, and urge the State and Territory Governments to legislate accordingly.

Senator George Brandis
Deputy Chair

Senator Grant Chapman

