Australian Chamber of Commerce and Industry

PRE-BUDGET SUBMISSION 2020-21

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Summary of Recommendations

In the wake of the COVID-19 pandemic, Australia is facing its biggest economic challenge in almost a century. The economy has been severely disrupted by the COVID-19 health restrictions, which have driven Australia into recession for the first time in almost 30 years.

We are in the process of restarting the economy, however, we also need to set the course for its repair and recovery. To ensure Australians have the future living standards to which they aspire, the economy will need policies that create the conditions for sustainable, strong, job creating growth. Achieving this will require reforms that are comprehensive, complex and longer-term.

In the meantime, the Australian Chamber of Commerce and Industry offers the policy recommendations in this submission as a starting point for initiatives that can be implemented this financial year that would enable a more productive and competitive operating environment for business as the economy recovers from the COVID-19 crisis.

TAX AND FISCAL MEASURES

- Begin the process of comprehensive tax reform for a stronger, fairer and more efficient tax system
- Work with state and territory governments to reduce the burden of payroll taxes on business
- Bring forward the legislated personal income tax cuts
- Reduce the reliance on inefficient taxes such as fringe benefits tax, luxury car tax, wine equalization tax and customs duties
- Make permanent the small and medium sized enterprise instant asset write-off for purchases up to $150,000 and accelerated depreciation deduction for higher value purchases

INNOVATION AND R&D

- Abolish the proposed Treasury Laws Amendment (R&D Tax Incentive) Bill 2019
- Develop a national innovation incentive roadmap to increase government and business expenditure in R&D and the speed, scale and scope of new-to-market innovation
- Expand and reorient investment across Australian Research Centres to enhance commercialisation outcomes and talent exchange
- Establish a new Cooperative Research Centre to address the challenges and opportunities of the circular economy
- Increase the scale and competitiveness of domestic manufacturing through targeted investment in sectoral and place-based clusters

DEREGULATION AND REGULATORY REFORM

- Expand the Regulatory Resolution Unit's role and increase its capacity and powers
- Establish a National Regulatory Resolution Working Group to support the Council of Federal Financial Relations on deregulation
- Review the cost recovery process for regulatory agencies to drive efficient regulation
- Place a temporary moratorium on new regulation
- Reduce compliance complexity by improving guidance for business owners

ENERGY

- National Cabinet to achieve a nationally-agreed energy and carbon emissions policy
- Increased efficiency of the gas transmission network

INFRASTRUCTURE

- Review the recommendations of Infrastructure Australia's *Infrastructure Priority List*
- Finance public infrastructure through government securitised infrastructure bonds

CYBER AND DIGITALISATION

- Fast-track the AustCyber Security Industry Roadmap to boost trust and confidence in the digital economy
- Establish a Smart Cities Cooperative Research Centre with the aim of commercialising novel solutions to improve safety, congestion and commercial confidence in our urban centres
- Task the Productivity Commission to review opportunities for faster digitalisation of the Australian economy

CIRCULAR ECONOMY

- Review Australia's economic, technical and institutional barriers and opportunities to waste and recycling with the aim of establishing competitive markets, driving a mature innovation ecosystem and increasing investment in new technologies.

JOBSEEKER/UNEMPLOYMENT SUPPORT

- Revert JobSeeker to the indexed pre-COVID NewStart rate and phase out the supplement in two stages
- Redesign of PaTH, Transition to Work, apprenticeships & proven youth programs
- Adopt a holistic approach to youth unemployment and subsidise VET training
- Financial reward PaTH training providers and trial a new PaTH model

SKILLS

- Improve funding for VET
- Extension of the 50% wage subsidy for apprentices and trainees
- Prepare a national Workforce Development Strategy and review at least every two years

MIGRATION

- Allow temporary skilled migrants to return to finish their term at no additional cost
- Improve process for employers to bring skilled migrants into Australia
- Improve access to permanent skilled migrant positions for those already in Australia
- Restore Permanent annual migration levels to 190,000

TRADE

- Implement a Trade Community System
- Lock in funding at $200 million for Export Market Development Grants (EMDG)
- Support more Australian SMEs to become internationally engaged.
- Assist businesses to understand and take advantage of trade agreements

Introduction

The Australian economy is facing its first recession since 1991 and the biggest contraction since the 1930s. The restart and recovery of the economy in the wake of the impact of COVID-19 will be challenging.

Despite nearly 29 years of uninterrupted growth, at the start of 2020, the economy's rate of growth was facing headwinds from international factors weighing on the expectations of businesses and consumers and low productivity growth. Weak economic conditions intensified with the bushfires and the COVID-19 outbreak. The latest National Accounts show widespread weakness across the private sector, with total private demand contracting by 1.1% in the March quarter. Expectations are that the economic contraction induced by the health responses to the pandemic will be concentrated in the June quarter and the economy will recover thereafter. Although the economic outlook remains highly uncertain there is a growing consensus that the recovery will take years rather than months to achieve.

To ensure Australians have the future living standards to which they aspire, the economy will need policies that create the conditions for sustainable, strong, job-creating growth. There are actions Government can take in the relatively short term and there are actions that are more complex and comprehensive that will take longer to achieve but need to be done.

The economy has been severely disrupted by the COVID-19 health restrictions, after the restart we need to begin the recovery by repairing it. Australia needs greater investment in productive capital, which can be increased through Government and private sector initiatives that direct expenditure to high priority infrastructure and through tax incentives targeted at lifting business investment.

The economy will be scarred for the next few years and therefore vulnerable to further shocks, so we need to begin de-risking it from adverse health, financial market and climate-induced events.

We also need to begin the task of implementing the supply-side reforms that have already been identified by the Productivity Commission in numerous studies including *Shifting the Dial,*[1] that will enable the economy to grow faster and stronger, and provide the much-needed employment opportunities during the recovery and beyond.

Looking to the longer term, if Australia is to achieve sustainable economic growth that raises the living standards of its people, then we need comprehensive policy reform to restructure the economy, so it has the dynamism, resilience and competitiveness to deliver it. Achieving these outcomes requires:

[1] https://www.pc.gov.au/inquiries/completed/productivity-review/report

- A simplified tax and transfer system involving both levels of Government that is efficient to support national competitiveness, rewards effort and risk-taking and is fair.
- A regulatory system involving both levels of Government that is simple and outcome-focused rather than complicated and prescriptive, to make it easier for businesses to be established, operate and grow.
- An energy policy that can deliver security, affordability and low emission outcomes.
- A digital transformation agenda that supports the necessary infrastructure and transitional assistance (and data governance and protection) to improve productivity and deliver the necessary information and communications technology to households and businesses.
- Skills and training that deliver the capabilities and employment opportunities that will drive economic growth.
- Population and regional development policies that attract talented people and investment to where they are most needed and valued.
- Trade and industry policies that maximise our opportunity to engage in mutually beneficial trade with the world.
- An industrial relations system that encourages employees and employers to engage in mutually beneficial work-related arrangements that support gains in productivity and associated wage growth.

ACCI is working with its extensive business network to develop new policy ideas on these more comprehensive, complex and longer-term areas of reform, which we will bring to Government over the coming weeks and months.

In the meantime, we offer the policy recommendations in this submission as a starting point for initiatives that can be implemented this financial year that would enable a more productive and competitive operating environment for business as the economy recovers from the COVID-19 crisis.

Tax reform

Australia's tax system is replete with inequities resulting from the way labour, land and capital are taxed and the array of tax expenditures in the form of exemptions, deductions, concessions and deferrals. It is too reliant on unsustainable and distortionary taxes. There are also imbalances across the two-tiered tax system on the roles and responsibilities of the Commonwealth and state and territory Governments for raising revenue and spending on public goods and services that give rise to structural weaknesses in budgets.

As the economy recovers from the COVID-19 crisis, the overarching objective should be to achieve a sustainable increase in the long-term living standards of Australians through strong, inclusive, job-creating economic growth. Improving Australia's tax and transfer system will make a significant contribution to lifting economic growth over the long term and strengthen the economy's recovery.

Recommendation

- National Cabinet through the Council of Federal Financial Relations to begin the process of comprehensive tax reform with the aim of delivering a structurally stronger, fairer and more efficient tax system.
- The Council of Federal Financial Relations sets itself the mission of resolving what the Commonwealth and state and territory governments can do to reduce the burden of payroll taxes on business to support them in growing and employing more people.

Rationale for Proposed Policy

For too long the task of meaningful tax reform has been deferred by Governments. There are plenty of reviews, ideas and opinions on what needs to be done. Given the challenge the economy will face as it embarks on the recovery from the COVID-19 crisis, tax reform needs to be a high priority issue for Government.

Achieving comprehensive tax reform that supports federal and state budgets over the long term while addressing distributional impacts and promoting economic growth will take time and is hard. That challenge should not prevent both tiers of Government committing to the need for tax reform and making a start. Australian businesses need the tax system to deliver the right mix of incentives that will make them globally competitive, stimulate investment in research and development, and support them in becoming more efficient and productive.

Now is the time for the National Cabinet through the Council of Federal Financial Relations to begin the task of tax reform that will deliver a structurally stronger, fairer and more efficient tax system. Consideration should be given to the respective role of income taxes and consumption taxes in ensuring Australia has the necessary tax base to sustainably support Government spending.

The Council of Federal Financial Relations also has an important role to play in resolving what can be done to reduce the impact of inefficient taxes such as payroll taxes and stamp duties that impede business activity, including employing more staff, and people moving to new employment opportunities where their skills are needed, respectively. State and territory governments rely heavily on these taxes for revenue and face the challenge of looming fiscal gaps as expenditure grows faster than revenues. As highlighted in the draft report of the NSW Government's review of federal financial relations, achieving beneficial reform of payroll taxes and stamp duties will require inter-governmental cooperation.[2]

An obvious place to start on tax reform that could contribute to stimulating business investment and improving jobs growth in the recovery is for the Council of Federal Financial

[2] NSW Government (2020). *NSW Review of Federal Financial Relations: Supporting the road to recovery.* Draft Report: https://www.treasury.nsw.gov.au/sites/default/files/2020-06/FFR%20Review%20Draft%20Report%20.pdf

Relations to agree on how to deal with the vexed issue of the state and territory governments' reliance on payroll taxes as a revenue source. Reducing the burden of payroll tax on business is not only an important start to broader tax reform but is necessary to support business and job growth as the economy recovers.

Inefficient taxes on goods and services

ACCI appreciates that achieving comprehensive tax reform is a longer-term objective. However, there is scope in the shorter term for government to reduce reliance on some inefficient taxes on goods and services. Removing excise taxes that cannot be justified on public policy grounds and customs duties will assist in the recovery from the COVID-19 by stimulating consumer demand.

Recommendation

- Remove fringe benefit tax on entertainment-related expenses, childcare and gym membership to support employment and stimulate consumption in areas hardest hit by the shutdown.
- Remove the luxury car tax and the wine equalization tax, which are impediments to demand.
- Remove all customs duties to make it simpler for companies to import goods.
- Shift all other border-related revenue collection to the regular BAS reporting process to ease the administrative burden on business.

Rationale for Proposed Policy

Fringe benefits tax (FBT) provides only a small contribution to the overall tax take (0.85% of total tax revenue in 2018-19) but represents a significant cost to business and acts as a disincentive to employment and constraint on consumption.

FBT is levied on non-cash benefits an employer provides to an employee, including entertainment-related expenses such as food, drink or recreation and any accommodation or travel in connection with it, as well as childcare, gym membership and other non-wage expenses of employees. Employees can also choose to salary sacrifice for items such as cars and school fees. The tax, paid by the employer, is at the top personal income tax rate of the employee, which is significantly higher than the corporate tax rate.

FBT involves a considerable amount of red-tape and adds administrative costs to businesses. The administrative burden, in addition to raising an employer's wages bill, acts as a major disincentive to take on new employees.

The removal of FBT on entertainment-related expenses, such as meals and entertainment, and travel and accommodation, has the potential to boost spending in sectors hardest hit by the COVID-19 shutdowns, such as restaurants, cafes and bars. Similarly, the removal of FBT on childcare and gyms will facilitate the return to work for many employees and have broader benefits for business productivity, including attracting the right staff. Overall, removing FBT has the potential to lower the cost of doing business, increase employment and stimulate economic activity more generally by raising demand in the economy.

There is no longer an economic rationale for the luxury car tax. It is simply an additional cost borne by consumers that changes their decision on the type of vehicle to purchase. With the current focus on low emissions vehicles, it is leading to perverse outcomes, as most hybrid and electric vehicles, which are more expensive than their petrol and diesel competitors, incur the luxury car tax. Vehicles used for business purposes, such as those used by farmers and tradies, are also subject to the tax. The contribution of the luxury car tax to the overall tax take is negligible ($688 million in 2018-19 or 0.15% of total tax revenue) yet its impact on car purchases is substantial. At a time when the automotive industry is being severely impacted by a collapse in demand, removal of the luxury car tax will provide an important boost for the sector and the economy, as well as improve the environmental performance of the sector from increased adoption of low emissions vehicles.

The wine equalization tax (WET), taxes wine based on value, not alcohol content. Other alcoholic beverages (beer and spirits) are taxed on their alcohol content, targeting public health costs and reinforcing social policy objectives related to alcohol consumption. The WET has the opposite effect, as cheaper wines that are likely to be consumed in greater quantities are taxed less. There is no rationale for this tax, as it does not achieve the public health objectives, it is simply a tax on higher value goods. Given it makes very little contribution to the overall tax revenue (0.22% in 2018-19), removing the WET will have little impact on government revenue, but is likely to boost sales of higher-value wines thereby increasing GST revenue.

Customs duties or tariffs are simply a tax on imports historically aimed at protecting domestic industries. While they are paid by the importer, their overall effect is to increase the cost of goods to the consumer. While customs duties have been steadily wound back over the years, they still exist (albeit at a low level – typically 5%) and now only apply to a small range of imported items. In the negotiation of Free Trade Agreements, customs duties are typically negotiated down to zero on most items.

With Free Trade Agreements now covering over 80% of Australian goods imports, there is little reason to continue to levy customs duties on the remaining 20%. As well as increasing the costs of the goods, they represent additional red-tape and a substantial administrative burden on importers in determining the appropriate tariff to apply to the imported goods based on the country of origin. The removal of all customs duties will make it simpler for business to trade while making a negligible impact on the overall tax take (import duties represent 0.3% of total tax revenue).

Tariff classifications and customs duties also represent a significant administrative burden on importers, in the processing and payment of these duties, as well as to the Department of Home Affairs who administer them. The collection of these duties could be made more efficient, and administrative burden reduced, by shifting all other border-related revenue collection to the regular Business Activity Statement (BAS) reporting process.

More effective policing of illicit tobacco products and associated revenue could offset some of the revenue lost from other areas of reform suggested above. Currently, tobacco excise revenue of over $3 billion annually is left uncollected because of gaps between the National efforts to eliminate illicit tobacco from entering the country and the State compliance on sales of the same product.

Personal income tax

As the economy recovers from COVID-19 it will face ongoing weakness in private demand from subdued growth in household and small business incomes. To provide the economy with a much-needed boost in demand, the government should bring forward the personal income tax cuts that are legislated to begin in July 2022. Bringing forward the scheduled reduction in the personal tax cuts will increase household disposable income at a time when it is most needed, to either support consumption or reduce household debt. It will also assist micro-businesses, sole traders, partnerships and trusts that are typically unincorporated and subject to personal tax rather than company tax.

Recommendation

- Bring forward the second-round reduction in personal income tax cuts from 2022-23 to 2020-21, and the third-round from 2024-25 to 2021-22

Rationale for Proposed Policy

Stage 1 of the reduction in personal income taxes came into effect in the 2018-19 income year delivering an immediate benefit through the Low to Middle Income Tax Offset for those earning up to $126,000.

The second stage of the reduction in personal income taxes are scheduled to come into effect in the 2022-23 income year and will see the top threshold of the 19% personal income tax bracket increase from $41,000 to $45,000. The third and final stage is not scheduled to come into effect until the 2024-25 income year and will see the 32.5% marginal tax rate reduce to 30%, the removal of the 37% tax bracket and increase in the bottom threshold for the top tax bracket to $200,000. Overall, this will reduce the marginal tax rate for those earning up to $200,000 to 30%.

It is proposed that government bring forward the second round of tax cuts from 2022-23 to 2020-21 and the third-round from 2024-25 to 2021-22. This will provide an important boost to consumer spending, stimulating the economy as it recovers from COVID-19. It will also assist the cash flow of many unincorporated micro-businesses, sole-traders, partnerships and trusts, where the business owner is subject to personal tax, rather than company tax.

Bringing forward the second- and third-rounds of personal tax cuts is an efficient way of raising both consumer and small business confidence to support the economy's recovery.

While bringing forward the personal income tax cuts will reduce government revenue over the near term, the benefits from increased consumer and small business confidence and spending will contribute to increased economic growth, thereby providing a longer-term net benefit to the economy.

Business investment incentive

Without an increase in business investment as we emerge from the COVID-19 crisis, Australia's productivity growth risks remaining low. Business investment is vital to having the new capital and technologies that will complement the skills development and innovation that are necessary to drive productivity gains. With the instant asset write-off and accelerated depreciation deduction already in place, there is a strong case to retain these arrangements, making them permanent, to support business investment and drive economic growth out of the COVID-19 induced recession.

Recommendation

- Make permanent the instant asset write-off for purchases up to $150,000 by small and medium businesses (SMEs with annual turnover up to $50m).
- Make permanent the accelerated depreciation deduction, which enables all businesses (annual turnover up to $500m) to write down 50% of the value of an eligible asset's value in the first year of purchase, with the remainder depreciated using normal depreciation schedules over the standard life of the asset.

Rationale for Proposed Policy

Investment in new capital is an important factor in increasing labour productivity. There has been a marked slowdown in capital investment by businesses over the past decade. Annual real growth in non-mining investment in machinery and equipment has slowed to an average of less than 0.5% per annum since 2010, compared to an average of 9.5% for the decade up to 2008-09.[3]

This weak rate of business investment has been exacerbated by the COVID-19 crisis, with the RBA expecting non-mining business investment to lag the recovery, not returning to pre-crisis levels until well into 2022 or beyond.[4]

[3] https://www.rba.gov.au/speeches/2018/pdf/sp-gov-2018-03-07.pdf
[4] Reserve Bank of Australia (2020) *Statement on Monetary Policy,* RBA May.

Capital investment is a key driver of labour productivity. As observed over the past decade, productivity has fallen considerably due to a marked decline in the capital to labour ratio (capital shallowing).[5]

In the early stages of the COVID-19 crisis, government sought to stimulate business investment through an increase in the threshold for the instant asset write-off to the end of the 2019-20 financial year. This allowed SMEs (with turnover less than $50 million) an immediate tax write-off for investment of up to $150,000 in eligible plant, equipment and machinery, compared to the earlier threshold for investment of up to $30,000. The extension of the increased threshold to the end of 2020 is welcomed, but the value of assets that can be immediately written-off will then revert to $1,000.

Similarly, the accelerated depreciation deduction was also introduced in the early stages of the COVID-19 crisis, allowing small, medium and large businesses (with an aggregate turnover of less than $500 million) to write-down 50% of the value of an eligible depreciable asset when it is first used or installed. Existing depreciation rules apply to the balance of the asset's purchase cost. The accelerated depreciation deduction scheme is set to expire on 30 June 2021, at which time the normal depreciation schedules for assets will apply.

There has been little uptake of the instant asset write-off or the accelerated depreciation deduction due to uncertainty about the future and the challenging financial situation faced by many businesses as the economy entered recession. These concerns will gradually ease as we begin to emerge from the contraction and businesses become more confident about investing.

The recovery from the COVID-19 induced recession will take several years. The instant asset write-off and accelerated depreciation deduction are needed over this period to drive business investment that will support economic growth and jobs growth.

A continuation of the instant asset write-off and accelerated depreciation deduction will support the government's objectives in lifting industry output and growing the manufacturing sector to support economic recovery. It will assist businesses with the purchase of the machinery and equipment necessary for businesses to develop this advanced manufacturing capability.

While making the instant asset write-off and accelerated depreciation deduction permanent represents a short-term cost to the Budget, over the long-term the costs are negligible. They both simply bring forward the depreciation benefits to a business from the purchase of an eligible depreciable asset. Although businesses can use the higher depreciation rate to lower tax paid in the current year, it increases the amount of tax collected in future years, as businesses no longer have this depreciation offset.

[5] Productivity Commission (2019), *PC Productivity Bulletin, May* – Recent Productivity Trends. https://www.pc.gov.au/research/ongoing/productivity-insights/2019/productivity-bulletin-2019.pdf

Innovation and R&D

In the wake of the COVID-19 crisis, business expenditure on capital investment and research and development (R&D) is likely to fall dramatically due to uncertainty about future economic conditions. Innovation and technical improvement are fundamental to the Australian economy's recovery and longer-term prospects. Business will require greater support from government to invest in activities that will drive economic growth. Government has an important role in directly and indirectly facilitating a greater commitment from the private sector in R&D.

Recommendation

- Abolish the proposed Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019.
- Develop a national innovation incentive roadmap in association with state and territory governments, industry and academia, with the aim of increasing total (government and business) R&D expenditure to 2.5% of GDP by 2025.
- Increase investment in Australian Research Centres, including Cooperative Research Centres (CRCs) and refine and reorient their operating models to better focus on delivering application-oriented commercial outcomes, such as those achieved by Germany's Fraunhofer model or Ireland's mission-oriented approach.
- Establish a circular economy CRC to stimulate and support business investment in R&D, enabling Australian businesses to be at the forefront of development in this emerging area.
- Assist existing sectoral and placed-based clusters of businesses to increase the scalability of domestic manufacturing firms and facilitate the development of high-performing and cooperative clusters.
- Expand and diversify the Automotive engineering graduate program, to enhance the stream of high-quality graduates in key growth areas of the economy, such as food manufacturing, defence, cyber security and mining technologies.

Rationale for Proposed Policy

Australia's relatively low overall R&D expenditure and relatively poor performance in commercialisation of research output compared to many other countries is a cause for concern and highly likely to be exacerbated by COVID-19. Australian investment in research and development (R&D) has fallen substantially in recent years, such that it is now below 1.9% of GDP. This is well below the OECD average of 2.4% of GDP and other major economies such as Japan (3.2%), Germany (3.0%) and the United States (2.8%).[6] Countries such as New Zealand, have increased their R&D incentive to 15% and some including the

[6] https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm

USA, and UK have highly diversified innovation ecosystems supported by favourable tax and regulatory environments which are highly attractive to global R&D firms.

The proposed Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 must be abolished. There are a number of issues identified in the proposed Bill that will further reduce business expenditure in R&D (BERD). These include the absence of a collaboration premium, the flawed design of the intensity premium, the reduction in meaningful incentives and the absence of savings being redirected into improving R&D incentives. The proposed intensity threshold will unfairly discriminate against firms with large amounts of Australian non-R&D expenditure such as those in mining and manufacturing, thereby creating an incentive to reduce Australian based people functions. The proposed Bill also misses the opportunity to stimulate greater R&D collaboration, such as through a collaboration incentive. The R&D tax incentive is a popular program. Further amendments to the incentive in the short to medium term will create further uncertainty and reduce overall business confidence in research and innovation investment.

To increase Australia's overall (government and business) R&D expenditure, the Commonwealth should work with state and territory governments, industry and academia to develop an innovation incentive roadmap with the target of lifting overall R&D expenditure to 2.5% of GDP by 2025. The roadmap will need to cover a range of issues such as, simplifying the R&D tax incentive application process, clarifying the definition of eligible activities, improving the quality and transparency of the assessment of eligible activities, effectively embedding a collaboration premium, and strategies to increase additionality and better allocating the mix and distribution of direct and indirect incentives. R&D policy should encourage and support firms to invest in application-oriented research with the aim of commercialising new-to-market innovations with the added benefit of broad spill-over effects throughout the economy.

In addition to the indirect investment in R&D through the R&DTI, government has a role in providing more direct investment. This includes direct investment in R&D, through increased funding for CSIRO, CRCs, RDCs and university research. It should also include more incentives for business to invest collaboratively with these and other research institutions to ensure institutional research is better focused on the needs of industry. The focus should be on innovation and commercialisation that leads to outcomes and outputs rather than simply research. This will ensure the greatest return is gained from the research dollar.

International experience demonstrates that R&D ecosystems can excel at attracting and integrating significant R&D investment and effort to achieve technical leadership and high levels of commercial value-add. An example is the German Fraunhofer model, where leading R&D firms cluster and work with tertiary institutions through the Fraunhofer application-orientated research organisation. Another effective industry policy design is Ireland's co-designed mission-oriented approach, which sets clearly defined goals and uses private sector innovation and commercialisation and scalability to achieve them.

A model like Germany's Fraunhofer or Ireland's mission-oriented approach can be replicated in Australia if we refine and incentivise a shift in the key performance metrics of Australian

Research Centres to focusing on commercialisation, lifting scalability, increasing the number and quality of application-orientated research projects, and forming greater international linkages and collaboration with industry. Support for an application-orientated research approach that works collaboratively with industry is vital to support the growth and development of Australia's relatively small manufacturing ecosystem and make it internationally competitive.

There is also an opportunity for government to assist in leveraging existing sectoral and placed-based clusters to increase the scalability of domestic manufacturing firms and facilitate the development of high-performing and cooperative clusters. Cooperatives can boost SME competitiveness and support Australia's locally-owned manufacturing base. This has been well demonstrated in the food manufacturing sector with farmer-owned processing co-ops like Norco or Northern Co-operative Meat Company. They also underpin the strength of SMEs in defence and engineering, manufacturing and organic waste recycling. Germany's Mittlestand business sector provides a useful model for consideration on incentivising domestically-owned SME manufacturing.

Advanced manufacturing has significant potential to grow the economy and create jobs. Industry identifies the acceleration of circular economy as a key megatrend that will transform the economy over the next decade. Circular economy presents Australia with an opportunity to lead the world in using materials more efficiently. Investment in Australian Research Centres and other targeted funding mechanisms to foster collaborative innovation and research with the aim of resolving industry challenges such as waste management and materials efficiency will become increasingly important. Although Australia is phasing out exports of its major waste streams, it does not possess the necessary infrastructure to efficiently and effectively process waste into quality and cost competitive substitutes for virgin materials. Enhancing the technical and process capability of Australian businesses in these areas will deliver efficiencies and improve their competitiveness while providing broader economic, social and environmental benefits. The establishment of a circular economy CRC would stimulate and support business investment in R&D, enabling Australian businesses to be at the forefront of development in this emerging area. Increased business investment will help to drive innovation and lift productivity as the economy recovers.

There is merit in expanding and diversifying the Automotive Engineering Graduate Program (AEGP), to enhance the stream of high-quality graduates in key growth areas of the economy such as food manufacturing, defence industry, cyber security and mining technologies. The AEGP identified core research priorities as identified by industry, leading to graduate placements, industry skill development with a focus on application-orientated research and commercial output.

Deregulation and regulatory reform

Successive governments have acknowledged the impact of regulatory burden on business, yet progress on putting in place effective regulation that imposes minimal cost on business has been slow. The benefits of less prescriptive and constraining regulation have been demonstrated on numerous occasions in response to the COVID-19 crisis. Achieving substantive regulatory reform is a huge task but will become increasingly important to support business activity as the Australian emerges from the current contraction.

Recommendation

- Increase funding to the Regulatory Resolution Unit, expand its role and increase its powers to a more extensive program so it is better able to coordinate regulatory reform across government departments and agencies.
- Establish a National Regulatory Resolution Working Group to support the Council of Federal Financial Relations (CFFR) on deregulation, with the aim of incorporating all key stakeholders including local, state and federal government agencies and regulators, industry bodies and employee representatives.
- Review the cost recovery process for regulatory agencies and ensure incentives are in place to drive efficient regulation.
- Place a temporary moratorium on new regulation, while the regulatory reform and the cost recovery reviews are being undertaken.
- Draw on process improvement proposals such as the Victorian Better Approvals project, the New South Wales Concierge service and the Tell Us Once model to assist business owners on their journey to better compliance.

Rationale for Proposed Policy

The burden of regulation is a key factor constraining Australia's productivity, growth and international competitiveness. Australia has ranked stubbornly low in the World Economic Forum's Global Competitiveness Index, ranking 80th last year on the burden of government regulation.

The Deregulation Taskforce has recently evolved into the Regulatory Resolution Unit and will shift from the Department of Treasury to the Prime Minister and Cabinet, making it more permanent. However, this doesn't appear to have come with increased funding, or the expanded powers needed to deliver regulatory reform in areas that cut across several areas of government departments and agencies.

ACCI has identified a broad array of areas where action is needed to make serious progress on reducing regulatory burdens, including antiquated trade regulation found in the Customs Act and Excise Act; infrastructure planning, building and procurement at the state and Federal level; labour market testing and employment services; chemical assessments and controls; medicines and medical device regulation; transport, mobility, supply chains and freight; agricultural supply chains; work health and safety; retail trading hours; leasing arrangements; state liquor laws; and removing duplication of state and Commonwealth environmental regulation.

NSW Business Connect Program is an example of an approach to cut red-tape and assist business owners in navigating the regulatory requirements when starting up a business or seeking approval for new developments. It provides a concierge service, or one-stop-shop, to assist a business owner in obtaining the necessary licenses, permits and approvals across a number of Departments and Agencies. A similar service could be developed at the Commonwealth level to assist businesses navigate the Federal regulatory approval process across a range of areas. The Better Approvals project in Victoria provides another good example of where government can reduce cost to business through improved regulatory and compliance costs. Faster permits for project approvals has delivered a 73% reduction in average approval times on multiple permit applications. Waiting times for business in some instances have been reduced from 126 days to 11 days.

The Tell Us Once (TUO) model can provide business with a single view of government by reducing the burden on business to provide information to multiple regulators. The Modernising Business Registers Program with its aim to centralise and streamline business registry processes represents an important red tape reduction opportunity for all businesses. However, the supporting legislation precludes the participation of co-operatives.[7] A small amendment is required to allow for administrative referrals by state and territory regulators to allow co-operatives to benefit from the rollout of this program. This and other examples will be taken for further consideration under the Council of Federal Financial Relations (CFFR) under the new federal relations framework.

The issues raised by our members are often the result of duplication and overlap across local, state and federal law. The unnecessary duplication of environmental regulation administered by the states and Commonwealth is a longstanding issue, which needs to be addressed in the current independent review of the *Environment Protection and Biodiversity Conservation Act 1999*. Another important issue relates to planning and land use, which has led to serious concerns for national and multinational organisations that often spend thousands of dollars and hundreds of hours in preparing applications. Lengthy approval times and cumbersome paperwork can often lead to commercial disinterest and with it a loss in jobs and economic opportunity. For example, Google's application to establish a headquarters in Sydney had been rejected several times, despite the prospect of enormous economic benefit.

State, territory and local governments are principally responsible for planning and land management under the Australian Constitution. Productivity Commission reports and the 2015 Competition Policy review highlight problems with planning and zoning laws across Australia and recommend they become less restrictive.[8,9] Through the CFFR, there is the opportunity for the Commonwealth to work with the states and territories to reduce the

[7] Treasury Laws Amendment (Registries Modernisation and Other Measures) Bill 2019: https://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bId=r6471
[8] The Australian Competition Policy Review, Final Report March 2015: https://treasury.gov.au/publication/p2015-cpr-final-report
[9] Relevant Productivity Commission reports include: Shifting the Dial 5 Year Productivity Review, Supporting Paper No. 10, Realising the Productive Potential of Land, https://www.pc.gov.au/inquiries/completed/productivity-review/report/productivity-review-supporting10.pdf; Performance Benchmarking of Australian Business Regulation Planning, Zoning and Development Assessments Vols. 1 and 2, https://www.pc.gov.au/inquiries/completed/regulation-benchmarking-planning/report

amount and impact of restrictions contained in planning legislation. Improving the clarity, consistency and certainty of the planning system across Australia would lead to more efficient, competitive and productive outcomes.

To achieve a more extensive program of regulatory reform, it is important the Regulatory Reform Resolution Unit has secure long-term funding and resources and the deregulation work being undertaken by the CFFR incorporates the views of all affected parties. This could be achieved by establishing a National Regulatory Resolution Working Group to support the CFFR that includes all key stakeholders including local, state and federal government agencies and regulators, industry bodies and employee representatives. Priority areas of focus include improving the efficiency and effectiveness of regulation, better coordinating regulatory reform across Departments and Agencies, and better harmonising new and existing regulation.

Many regulatory agencies are reliant on full-cost recovery for their regulatory services, which provides little incentive to bring in efficient regulation. Costs for regulatory services are continually rising, along with the complexity and additional regulatory burden. The government's Cost Recovery Guidelines include three cost recovery principles: efficiency and effectiveness; transparency and accountability; and stakeholder engagement. Policy is clearly failing in these areas, particularly in terms of transparency and accountability. The last review of the cost recovery arrangements was undertaken by the Productivity Commission in 2000. It is timely for the Productivity Commission to again review the cost recovery arrangements for regulatory agencies and how they can be incentivised to deliver efficient regulation.

Energy

To achieve a faster and stronger economic recovery out of the COVID-19 crisis, energy policy needs to support a smooth structural adjustment in the economy that delivers strong, long-term economic and productivity growth.

Recommendation

- National Cabinet to achieve a national agreement on energy and carbon emissions policy, with the aim of reducing energy costs and creating better functioning energy networks by delivering the long-term policy certainty necessary to support private investment in the energy sector.
- National Cabinet to increase the efficiency of the gas transmission network.
- Remove embedded networks to give all electricity customers access to competitive retail networks.

Rationale for Proposed Policy

Energy policies need to target market-based solutions that stimulate private sector investment and promote and support a competitive market. This can be achieved by reducing the level of regulation and government intervention in energy markets.

The establishment of a National Cabinet Reform Committee on Energy presents the opportunity to bring about a national agreement on energy and carbon emissions policy. The Committee's aim should be to achieve the long-term certainty necessary to support long-term private investment in the energy sector necessary to reduce energy prices and bring about better functioning energy networks.

A short-term objective of the National Cabinet Reform Committee should be improving the functioning of the eastern gas market's transmission network by reconfiguring it to transport gas from north to south. Consideration should also be given to incentivising manufacturing industries to move north and west, closer to newly developed and prospective gas resources.

Gas power generation (GPG) has an important role to play over the next decade in balancing intermittent variable renewable (solar and wind) electricity, to stabilise electricity networks. Increased supply of low-cost gas is needed to support greater GPG, particularly in southern states (NSW, Victoria and South Australia). This will place greater stress on east coast gas supply, unless new gas resources are able to be accessed on the eastern seaboard. Current environmental constraints and moratoriums on gas exploration and gas field development need to be reviewed to meet the increasing demand for gas in the years ahead.

The CFFR also presents an opportunity to better harmonise environmental regulation which is holding back this gas exploration and major gas field developments.

An example of inefficiency in the electricity sector is embedded networks. The removal of embedded networks could be implemented quickly and would deliver a considerable cost saving to some customers. There has been a surge in embedded networks in recent years, as developers see an opportunity to gain a new source of ongoing income. Removing embedded networks and enabling access to competitive retail networks will significantly drive down the cost of electricity for some customers.

Infrastructure spending

Prior to the COVID-19 crisis, there was a significant need for additional infrastructure as well as upgrades, maintenance and replacements to support Australia's growing population and economy. Investment in infrastructure is widely regarded as an efficient form of government stimulus due to large output multiplier relative to our fiscal policy measures. Increased investment in infrastructure will provide much-needed stimulus to the economy as we emerge from the COVID-19 crisis as well as supporting future productivity growth.

Recommendation

- Review Infrastructure Australia's *Infrastructure Priority List* to identify investments with national economic significance that can be reordered from medium term (5-10 years) to near term (0–5 years) projects.
- Provide incentives to state and territory governments and local councils to improve procurement practices, such as adopting new developments in auction design that enable packaging of bidding for contracts, to increase competition by enabling a larger number of smaller contractors to bid for projects.
- Work with and provide further funding to state and territory governments and local councils to identify and bringing forward additional brownfield, maintenance and repair, projects, particularly in regional areas, as a means of providing short-term stimulus to the economy.
- Government finance public infrastructure by issuing of government securitised infrastructure bonds.

Rationale for Proposed Policy

Australia's population is projected to grow from 25 million in 2018 to 30 million by 2030. With Australia's major cities already under strain, greater investment in infrastructure is needed to reduce congestion, improve the livability of cities and increase productivity. Infrastructure is required across a wide range of sectors including transport, energy, communications and water.

Filling the growing infrastructure gap requires careful market-focused evidence-based decision-making. Therefore, the government should look to and rely on independent bodies such as Infrastructure Australia for the sequencing and delivery of infrastructure investment. Future Infrastructure investment should be guided by Infrastructure Australia's *Infrastructure Priority List*, which provides a 15-year investment roadmap with a focus on improving public funding of infrastructure.[10]

To deliver value-for-money the government should be looking to leverage private sector infrastructure investment. Wherever possible, the private sector should be engaged to finance, construct, operate and maintain infrastructure assets. Where this creates issues with local monopolies, a light-handed approach to regulation should be applied. Any regulation should aim to maximise efficiency and competition whilst diminishing the exercise of any market power.

The current infrastructure spend is heavily focused on larger projects in the major cities, but there is only a very short list of contracting businesses large enough to take on this work.

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[10] Infrastructure Australia (2020) *Infrastructure Priority List,* February. https://www.infrastructureaustralia.gov.au/sites/default/files/2020-03/2020_infrastructure_priority_list_low_resolution_-_updated.pdf

This is leading to an increase bottlenecks in the procurement of design, planning and construction contractors for major projects, particularly in Sydney and Melbourne, which is bidding up costs and contributing to increasing delays in the commencement and completion of major projects. New techniques in auction design such as that currently being developed at the Centre for Market Design at Melbourne University enable business and the market to determine the optimum allocation of packages of work.[11] These techniques provide scope to break tendering process into a number of smaller components, enabling contractors to make a number of bids for different components of a project. The adoption of these new techniques offers the opportunity to reduce costs, to improve the efficiency of delivery of major infrastructure projects. This will increase competition by widening the pool of contractors able to bid on projects and reduce delays in the commencement and completion of projects.

A recent survey by Consult Australia found two-thirds of member firms were experiencing a reduction in work from COVID-19, with the average downturn equating to one-third of normal business. Privately funded projects and buildings sector were significant areas of concern for firms and the east coast states were found to be the most impacted. Firms of all sizes reported a reduction in relation to state/territory and Federal Government projects as well as reported reductions related to local council projects.[12]

There is a large amount of existing infrastructure that needs maintenance and repair. Much of this is managed by local councils, many in regional areas, who have limited funding and resources and a large backlog of projects. There is an opportunity to increase Commonwealth support to local councils for spending on maintenance and repair of existing infrastructure, extending its life and/or reducing the need for more substantial maintenance and repair in the future.

The government announced a $1.5 billion infrastructure package in June 2020 to bring forward brownfield maintenance and repair projects, particularly small priority projects identified by the states and territories.[13] While this is a welcomed start, much more investment in the maintenance and repair of regional infrastructure is needed to address the existing large backlog of projects.

As brownfield infrastructure projects require a much lower level of planning and approval, this work can be initiated and undertaken relatively quickly. Therefore, further investment in these projects will provide short-term economic stimulus that is necessary particularly in regional areas, as we emerge from the COVID-19 crisis. In addition, given that these are often smaller projects, they will also provide much-needed opportunities for smaller contractors.

There is a compelling argument for government to fund investment in public infrastructure through securitised borrowing in the form of infrastructure bonds rather than through

[11] The University of Melbourne, Centre for Market Design. https://fbe.unimelb.edu.au/cmd/home#about-us
[12] Consult Australia, Industry Health Check: COVID-19 pulse survey results (June, 2020)
[13] https://www.pm.gov.au/media/address-%E2%80%93-ceda%E2%80%99s-state-nation-conference

general purpose borrowing.[14] Given the amount of debt the government is accumulating as a result of the large amount of fiscal support it has provided to the economy in response to COVID-19, ensuring public investment is well targeted to projects that are a priority is more important than ever. Public infrastructure can capture broad benefits, including economic, social and environmental, that make it attractive to investors seeking long term investments with particular characteristics.

Infrastructure bonds would facilitate private sector investment by providing opportunities for a range of investor types from individuals to large funds. Investors such as superannuation and pension funds, insurance companies and sovereign wealth funds would find these bonds an attractive vehicle to increase their investment in Australian infrastructure. In 2018, Australia's superannuation sector invested on average only around 5% of their total assets in infrastructure,[15] which is at the lower level of the 5-15% range for asset allocation.[16] There is considerable scope to leverage the sector's $2.7 trillion to invest in public infrastructure to support the government's policy priorities for economic growth and increased productivity.

Digitalisation, technology adoption and cyber security

Cyber security needs to be viewed as a growth-enabling activity to ensure Australian businesses remain competitive in an increasingly digital environment. Supporting the development of a globally competitive Australian cyber security sector will enable Australian organisations to pursue digitally-driven growth and build trust and confidence to participate in the global economy. The pandemic has accelerated the trend towards digitalisation and the opportunities for better functioning smart cities.

Recommendation

- Work with industry to fast track the implementation of the Aust Cyber Security Industry Roadmap as a matter of priority and set aside funding to develop business awareness and cyber resources for small business.
- Establish a Smart Cities CRC or equivalent to develop cyber-physical solutions to improve the productivity, safety and mobility of goods and individuals across urban centres with a focus on the commercialisation of novel solutions to address safety and congestion.
- Task the Productivity Commission to conduct a review of the opportunities for faster digitalisation of the Australian economy.

[14] Select Committee into the Security of Government Budget Measures: Second interim report, April 2016: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Scrutiny_of_Government_Budget_Measures/Budget_Measures/Second_Interim_Report
[15] https://realassets.ipe.com/news/australian-super-funds-to-put-at-least-aud130bn-into-infrastructure-by-2025/10025287.article
[16] http://infrastructure.org.au/wp-content/uploads/2017/06/The-Role-of-Superannuation-FINAL.pdf

Rationale for Proposed Policy

Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to increased productivity, enabling them to grow and create jobs, as well as provide an improved work-life balance. It is becoming increasingly important for SMEs in particular to look to the adoption and successful implementation of digital technologies within a trusted ecosystem, secured by design that is both robust and resilient. Research has shown that the adoption of digital technology by small business has the potential to save individual businesses 10 hours per week and boost revenues by 27%.[17] This equates to an increase in revenue of $385 billion per year across all small businesses.

A focus on cyber security is necessary to underpin the future evolution of every Australian industry as it embraces the digital economy. Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to increased productivity, enabling them to grow and create jobs, as well as provide an improved work-life balance. The digitalisation of high growth industries, such as digital education and digital health have the capacity to create positive spillover benefits through the economy. Supporting the investment of digitalisation will improve multi-factor productivity and thereby lifting wage growth.

Cyber security has never been more important, both as an enabler for Australian industry and as a source of economic growth itself. An increased uptake of digital technology needs to be complemented with further investment in protecting business and national security assets from the risk of cyber-attacks. Government and the business community needs to think of cyber security not just in terms of compliance and risk mitigation, but as an essential business function that is fully embedded in processes and systems.

Cybercrime costs the economy more than $1 billion annually and it disproportionately impacts SMEs. In addition to the $156 million cyber resilience and workforce package, further investment is required to provide small business with the confidence to take the opportunities granted to them in the digital economy.[18]

The creation of the Smart Cities CRC will act to establish greater confidence in our urban centres with the aim of adopting cyber-physical solutions to improve the productivity, safety and mobility of goods and individuals. This will restore confidence to our urban centres, particularly, Sydney and Melbourne, to kickstart the economic recovery and allow small business to get back to business. The CBDs of our two biggest capital cities alone contribute to 20% of the national economy. This will also reduce the costs of congestion and infrastructure as we become an increasingly urbanised environment. Ensuring our urban centres continue to thrive, attract talent and capital will be necessary in the short- and longer-term recovery.

[17] ANZ, The Digital Economy: Transforming Australian Businesses, August 2018.
[18] CPA, Asia-Pacific Small Business Survey https://www.cpaaustralia.com.au/professional-resources/business-management/small-business/asia-pacific-small-business-survey

To explore the possibilities and facilitate faster uptake of digitalisation, it is proposed to task the Productivity Commission to conduct a review of the opportunities for digitalisation of the Australian economy. This should include:

- greater coordination across federal and state jurisdictions with an emphasis on the economic gains from the coordinated, ethical application of artificial intelligence (AI)
- the right regulatory framework to encourage investment in the technology sector
- identifying short term implementation opportunities to accelerate eCommerce and eProcurement.

Circular economy

Australia has set an ambitious timetable for banning the export of major waste streams (plastic, paper, glass and tyres).[19] The economy's recovery from COVID-19 provides a good opportunity to lay the foundations for Australia moving to a circular economy and ensuring there is the waste management and recycling capacity necessary to achieve the export bans. To ensure the Australian economy captures to the greatest extent the opportunities from a circular economy, the transition needs to be informed by credible research into the potential benefits to the economy, the identification of the barriers that need to be overcome and the possible pathways to achieving it.

Recommendation

- Task the Productivity Commission to undertake a comprehensive review of how Australia could transition to a circular economy. The review should assess the economic benefits available to Australia from moving to a circular economy and the economic, technical and institutional barriers that may need to be overcome. It should also assess the opportunities that Australia's transition to a circular economy would provide for microeconomic reform.

Rationale for Proposed Policy

There has been a slow uptake of the circular economy in Australia beyond limited waste management and recycling capacity. Australia has also committed relatively few resources for research and development into more efficient use of material and new uses for waste materials, and there has been only limited market development for recycled materials.

The announcement of a ban on the export of waste plastic, paper, glass and tyres starting in 2020 has increased the urgency to develop waste management and recycling capacity in Australia.

More efficient use of material resources and better environmental outcomes are achieved by policies that increase competition in existing markets, create competitive new markets,

[19] https://www.environment.gov.au/protection/waste-resource-recovery/publications/national-waste-policy-2018

and provide incentives for business to innovate and invest in new technologies. While the possibilities for new ways in which goods and services are produced and consumed are numerous, competitive markets and innovation are powerful mechanisms for determining what is technically possible and economically feasible.

The transition to a circular economy may provide Australia with the opportunity to embark on a fourth wave of economic reform that aligns economic outcomes with environmental outcomes. The 2018 National Waste Policy states that a 5% economy wide improvement in efficiency in the use of materials could deliver an extra $24 billion to the Australian economy. Although very hypothetical, this estimate suggests substantial economic gains may be available from Australia improving its materials efficiency.

The National Waste Policy does not provide, nor seems to be based on, a comprehensive assessment of either the economic benefits available to Australia from moving to a circular economy, or the economic, technical and institutional barriers that may need to be overcome. There is currently no national economic assessment of Australia moving to a circular economy or the necessary changes in government policies and institutional arrangements to achieve it.

The Productivity Commission is best placed to provide the necessary credible, independent assessment. A Productivity Commission review into the economic benefits and challenges from moving to a circular economy would provide an important contribution to understanding the significance and opportunities for microeconomic reform. If Australia is serious about the circular economy, it is important that there is a robust understanding of how the government and industry can work together to increase competition in existing markets for waste and recycled materials, create competitive new markets, and provide incentives for business to innovate and invest in new technologies that will increase materials efficiency.

Employment

The temporary COVID supplement to JobSeeker is scheduled to come to an end in September. There has been substantial stakeholder and media focus on what amount the allowance should be following the removal of the supplement.

With youth unemployment at an unacceptably high-level pre-crisis and likely to get a lot worse, ACCI is very keen to work with the government to improve outcomes from Youth Jobs PaTH program.

Recommendation

- JobSeeker revert to the indexed pre-COVID NewStart rate and the supplement phased out in two stages:
    - Stage 1 from 24 September until 1 January 2021
        - the $550 per fortnight supplement is reduced but not eliminated.

- Stage 2 from 1 January 2021:
  - those unemployed for less than 12 months receive the equivalent of the previous NewStart entitlement (ie. no supplement) as we need to continue to incentivise the short term unemployed to find a job as soon as possible.
  - those unemployed for over 12 months receive a supplement above the previous NewStart entitlement, which can either be set for a certain period of time or until the unemployment rate drops below a predetermined level.
- all unemployed persons who need to pay for internet receive a supplement to specifically cover internet access.

- Consider a holistic approach to youth unemployment that combines a redesigned PaTH, Transition to Work, apprenticeships, proven youth programs, and fully subsidised VET training in qualifications that lead to jobs in demand
- Financially reward PaTH training providers for work experience, internship placements and job outcomes.
- Fund and trial a new PaTH model that offers long-term unemployed youth, structured job-related vocational training concurrent with work experience using a traineeship style model.

Rationale for Proposed Policy

One of the most challenging outcomes arising from the current crisis is the devastation it has wrought on the job market and the major increase in unemployment. Before the crisis, ACCI's policy on NewStart had consistently been that the focus should be on job placement rather than increasing what should be a temporary allowance while people find a job. However, with unemployment over 7% and rising, circumstances for particularly the long term unemployed (those that had been unemployed for some time prior to the crisis) have changed. The current jobs crisis has significantly increased the difficulty in this cohort of finding a job, meaning that the JobSeeker allowance and importantly other financial support for this cohort does at least for the short to medium term need to act more as a living allowance for many if not most recipients.

An alternative to a supplement for the long term unemployed who are under 25 is to invest in a holistic approach to youth unemployment that combines a range of proactive solutions built on programs that have been proven to work such as the Productivity Bootcamp operating in NSW which has now graduated more than 1,000 young people (many of which were disengaged from work) from its 8 week intensive training program. More than 85% have since found work and 45% graduated into a traineeship or apprenticeship. This holistic youth approach could combine a redesigned PaTH (see below), Transition to Work, apprenticeships, proven youth programs, and fully subsidised VET training in qualifications that lead to jobs in demand.

The level of youth unemployment has been unacceptably high for many years, with the current crisis exacerbating this situation. School leavers and graduates from 2019 face a particularly tough situation. ACCI was a strong advocate for the Youth Jobs PaTH (Preparation, Trial, Hire) program and its objective to enable the unemployed to gain experience in real workplaces. However, the original model for the PaTH put forward by ACCI, with structured training delivered concurrent with work experience, was not the one delivered. PaTH has struggled to provide the number of placements promised, despite that being the most essential element of the program. The current system prioritises the training component and uses it as a tool for mutual obligation. There is no incentive for the training provider to secure job or internship outcomes and no assurance of a placement for the participant. The PaTH program needs to be realigned to provide structured job-related vocational training concurrent with work experience using a traineeship style model. The program needs to prioritise job placement, which should be arranged before training is commenced, with work experience occurring concurrent with the training component.

Skills and training

ACCI welcomes the Federal Government's increased focus on VET including the Joyce Review, subsequent skills package announced in the 2019 Federal Budget and the recent prioritisation of skills for the National Cabinet. However, we note that this comes on the back of a fall in Commonwealth funding for VET in the last decade. The Commonwealth must commit to long term, real growth in investment in VET.

Recommendation

- Commit to long term, consistent funding for VET which delivers real funding increases that ensures the economy's skill needs are met.
- Extend the 50% wage subsidy for apprentices and trainees until 31 December 2020 for retained apprentices and apply subsidies to new apprentices that commenced from 1 July 2020.
- Ensure that the skills shortage analysis does not influence decisions on base incentives for apprenticeships, which are justified for a range of reasons including the public and productivity benefit.
- Fund the National Skills Commission to undertake a national Workforce Development Strategy at least every two years.

Rationale for Proposed Policy

In this current crisis, a particular area of skills investment in which the Commonwealth can play a primary role is apprenticeships. The 50% wage subsidy for apprentices and trainees in small businesses announced as part of the first government response to the COVID crisis was an important step in encouraging retention of apprentices and trainees. JobKeeper has also played an important role, but when it winds up and for those businesses that may not have been eligible, apprenticeship retention in difficult economic circumstances will remain a challenge. Even more so, ACCI is very concerned that the significant drop in commencements will create a significant skills shortage in the future.

An apprenticeship has public as well as private benefits. The total business case for an employer taking on a trainee or apprentice is fundamental to the decision to create the job opportunity. Where apprenticeships are the only pathway to an occupation, incentives are needed to help ensure a sustainable skills pipeline. However, incentives are not just relevant to apprenticeship-only pathways, as they encourage employers across the economy to enter into a training and employment arrangement to develop skills with a high productivity value. An assessment of skills in shortage should not be the only factor influencing the base apprenticeship incentives. Base apprenticeship incentives must be retained at their current levels – $1,500 on commencement and $2,500 on completion.

Apprenticeships are highly relevant to the Commonwealth's long-standing policy and funding interest in the economic outcomes for individuals on leaving school by encouraging a successful transition from school to work, as well as the productivity and economic dividend that comes from the development of high-value skills.

Skills needs as well as shortages (noting that these are not the same), together with a better-informed careers market, are high priorities for the business community. With the formation of the National Skills Commission (NSC), ACCI was pleased to see a consolidation of labour market analysis and forecasting to ensure decisions regarding skills and training needs, skilled migration occupation lists and employment policy and programmes are well informed by data and evidence from state/territory and national levels and most importantly industry. These functions should be combined to develop a periodic workforce development strategy to identify workforce skill needs. Additional funding for the development of the National Workforce Development Strategy should also be made available.

Migration and population

The COVID-19 crisis has effectively halted Australia's migration program. This will have long-lasting economic and fiscal consequences in its own right, but the impacts will be far greater the longer it takes to return migration to previous level. As soon as the international travel restrictions allow, the migration program should be restored to an even stronger position than it was pre-crisis.

Recommendation

- Refund monies to applicants for sponsored migrants who were unable to arrive or allow that migrant to enter when able at no additional cost.
- Allow temporary skilled migrants who returned to their home country to return to finish their term at no additional cost

- Improve the exemption application process that allows for employers to put a case to bring skilled migrants into Australia through appropriate quarantine arrangements.
- Improve access to permanent skilled migrant positions for those temporary migrants who are already in Australia.
- Restore Permanent annual migration levels to 190,000.

Rationale for Proposed Policy

Treasury's statement on migration in 2018, '*Shaping a Nation*', rightly highlights the economic and fiscal benefits of a strong permanent migration program. Young, skilled migrants deliver net economic and fiscal benefits and any reduction in the permanent migration intake (especially to the skilled migration component) will cost the Federal Budget. In *'Migration Works for All of Us',* the 2018 ACCI publication, sets out a detailed, public interest case in favour of migration; and demonstrates the benefits delivered by migration, particularly given the strong component in the intake that are younger skilled migrants.

The decision of the government to reduce the permanent migration intake by 30,000 to 160,000 from 2019-20 sends a negative signal about the benefit of migration. Although the 190,000 cap was not met in the last few program years, it was an appropriate level to maximise benefits and still control migration levels. The permanent migration levels should be restored to 190,000 in order to maximise both economic and fiscal benefits.

Trade

Part of the fallout from COVID-19 is the disruption to international trade and the resulting damage to many global supply chains. Restoring conditions supporting free trade and investment is necessary for repairing the damage COVID-19 has inflicted on the Australian economy. This is not the time for Australia to pull back from a pro-trade agenda.

Recommendation

- Remove remaining import tariffs and shift all other border-related revenue collection to the regular BAS reporting process.
- Implement a Trade Community System to reduce the costs of doing business in Australia for businesses to remain internationally competitive.
- Export Market Development Grants (EMDG) funding to be locked in at $200 million for the next budget and for the forward estimates.
- Work with industry more collaboratively to assist and support more Australian companies to become internationally engaged, especially SMEs.

- Work with SMEs to help reduce their exposure to supply chain risks as the effects of COVID-19 and government-imposed restrictions continue to unfold on local, national and global economies
- Increase efforts to assist businesses to understand the details of trade agreements in order to realise their potential.

Rationale for Proposed Policy

The benefits of free trade to Australian businesses are about more than just increased exports. While boosting exports increases income, importing attractively priced goods, services and IP benefits Australian businesses by lowering costs. This can boost profitability or increase production by improving competitiveness and opportunities to participate in the production of different goods and services through 'global supply chains'. Free flow of investment both in and out of Australia also provides access to new capital for domestic businesses, income-generating opportunities overseas, and cutting-edge business practices.

It is worth remembering that every export relies on imports. Australia offers elimination of import tariffs in our preferential trade deals. Once the agreement with the EU is completed there will virtually be no tariffs applied to imports. This is acknowledged in the 2019 Budget with forward estimates showing that revenue collection after drawbacks will be little more than $500 million. However, both industry and government remain saddled with administrative compliance costs for preferentially applied tariffs.

Supply chains have been severely disrupted as a result of the COVID-19 pandemic. The government applied certain exceptions to Personal Protective Equipment (PPE) imports to assist with the recent crisis. These exemptions should be permanently enshrined and extended. The am should be to remove all tariffs, thereby reducing the red tape and the tax burden from industry.

Internationally engaged firms are known to pay higher wages and have higher labour productivity.[20] The Export Market Development Grants returns $7 for every $1 invested. The government lifted the support for EMDG to $200 million in the recent stimulus packages and we call on the government to lock in this level of funding across the forward estimates to support continued expansion of our export sector.

The government has built up an array of preferential trade agreements, the latest, the Indonesia – Australia Comprehensive Economic Partnership Agreement (IA-CEPA) entering into force on July 5, 2020, along with ongoing negotiations for agreements with the EU, UK and nearing entry into force of the Regional Comprehensive Economic Partnership (RCEP). These agreements offer beneficial market access terms to companies that comply with the terms of each agreement, but our survey of exporters have demonstrated time and again that companies are not taking full advantage of the benefits on offer. ACCI and our members stand ready to assist the government to better inform and prepare companies for

[20] Razib Tuhin and Jan A. Swanepoel (2016) *Export behaviour and business performance: Evidence from Australian microdata.* Research Paper 7/2016

international engagement and the market diversification that will be necessary for us to drive economic activity in the post-COVID 19 recovery. We urge the government to invest significantly more in programs that assist companies to become internationally engaged and skilled to do so.

A lack of Australian competitiveness in global markets is a problem that constrains our economy. It is a result of built-up costs across the supply chain, including getting to, and through, our border. ACCI, along with the Port of Brisbane, has developed a Trade Community System[21] to address the commercial sector issues of data management, significant re-keying of the same information and the inefficiencies of the current logistics systems landside of the border regulator.

The project demonstrated the benefits of a modernised big data information system that would dramatically change the cost structure for business involved in international trade. It identified at least a $1 billion improvement annually in competitiveness if these systems could be implemented. Companies with highly digitised supply chains and operations can expect efficiency gains of 4.1% annually, while boosting revenue by 2.9% a year. For example, there were identified savings of half a million dollars per annum for one supply chain of one significant Australian business. This benefit can be repeated across the many thousands of internationally engaged businesses across our economy.

There is an opportunity for the government to also become a partner in these efforts and assist to place Australia back as a leading digital trade innovator in ways that will significantly change the cost structures for the Australian economy.

The concept envisages that we could see massively improved biosecurity and regulatory monitoring from the ability to know details of the cargo through its lifecycle in ways that are not currently available. The advent of COVID-19 has brought these issues into sharp relief and as we move towards a “restart” both domestically and with international trading partners, we will need significantly improved systems that put us at the forefront of global monitoring and data processing related to trade in goods as well as people movement.

A Trade Community System would cost in the order of $100-150 million to deploy. This could be done within 12-18 months. This is well inside any estimates related to the concepts of “Single Window” that have previously been considered by the government.

ACCI is keen to support the government in its efforts to overcome the current crisis, but more so, we are keen to ensure that Australia can emerge with a reinvigorated economy that can propel us back to an even higher level of productivity and economic success. We need to establish the foundation stones for the next generation of continuous growth and our current ranking of 106th in the World Bank’s ease of crossing borders needs to be dramatically reversed.

A system, such as we have already proved, which will massively advance our economy is urgently needed.

[21] https://www.tradecommunitysystem.com.au/