The Parliament of the Commonwealth of Australia

Report on the inquiry into impediments to business investment

House of Representatives
Standing Committee on Economics

April 2019
Canberra

ISBN 978-1-74366-987-7 (Printed version)

ISBN 978-1-74366-988-4 (HTML version)

Foreword

Business investment makes a significant contribution to Australia's economy. When firms are empowered to invest in new productive capacity and technology, it supports innovation and helps create new opportunities and employment.

Australia's stability and strong institutions help to attract business investment. Australia offers investors: a strong legal framework; continuous economic growth; high quality assets; availability of skilled labour; and proximity to Asia and relevant export and import markets. However, the committee recognises that Australia cannot afford to be complacent. Governments at all levels must foster an environment in which businesses have the tools to succeed.

The committee made 12 recommendations to better support Australian businesses and reduce impediments to business investment by reducing the burden of regulatory frameworks, particularly on small and medium enterprises (SMEs), and ensuring that innovation, taxation and energy policies encourage and support business investment in Australia. Key recommendations include:

- reducing the company tax rate in Australia to 25 percent for all companies by 2026-27
- setting the instant asset write-off at $25,000 for SMEs on an ongoing basis
- continuing the Australian Government's focus on improving electricity reliability and price
- reviewing the Export Market Development Grants scheme to ensure that the level of funding is sufficient to assist local small and medium-sized Australian businesses to increase their engagement in the global marketplace
- enhancing National Broadband Network customer outcomes

- continuing to streamline business engagement with government through projects such as the National Business Simplification Initiative
- considering options for streamlining small business engagement with government on workplace relations matters to foster an environment that encourages businesses to take on that first employee then more employees in order to grow their businesses
- enhancing regulatory frameworks by adopting a set of nationally consistent laws on electrical safety and bringing Australian Standards on clothing labels in line with international standards, and
- considering recommitting to the National Science and Innovation Agenda for another four years.

Tim Wilson MP
Chair

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Membership of the Committee

Chair	Mr Tim Wilson MP (from 10 September 2018)
	Ms Sarah Henderson MP (to 28 August 2018)
Deputy Chair	The Hon Matt Thistlethwaite MP
Members	Mr Adam Bandt MP
	Ms Julia Banks MP (to 28 November 2018)
	Mr Scott Buchholz MP (to 28 August 2018)
	Mr Trevor Evans MP
	Mr Jason Falinski MP (from 20 June 2018)
	Mr Kevin Hogan MP (to 27 March 2018)
	Ms Ged Kearney MP (from 21 May 2018 to 10 September 2018)
	Mr Craig Kelly MP
	Mr Matt Keogh MP
	Mr Ted O'Brien MP (from 18 February 2019)
	The Hon Craig Laundy MP (from 10 September 2018)
	Mr Josh Wilson MP (to 10 May 2018 and from 10 September 2018)

Committee Secretariat

Secretary	Mr Stephen Boyd
Inquiry Secretary	Ms Samantha Mannette
Senior Research Officer	Dr John White
Office Manager	Ms Jazmine Rakic

Terms of reference

On 27 March 2018, the then Treasurer, the Hon Scott Morrison MP, asked the Committee to inquire into and report on *impediments to business investment in Australia*.

The *Intergovernmental Review of Business Investment*, September 2017, reveals a complex mix of structural and cyclical factors as well as institutional and policy factors that are influencing business investment in Australia.

The Standing Committee on Economics will inquire into and report on:

- the interaction between regulatory frameworks across all levels of Government and how the cumulative regulatory burden can be reduced to support greater business investment;
- the impact of innovation policies, at the Commonwealth and State government levels, on business investment and the role of innovation policies in encouraging greater business investment, having regard to approaches taken in other countries;
- the role that taxation policy, at the Commonwealth and State government levels, can have on the encouragement of new business investment;
- the role that energy policies, at the Commonwealth and State government levels, can have on the encouragement of new business investment; and
- the impact of supplier payment times, including by governments, on business investment for small to medium enterprises.

List of abbreviations

ACCC	Australian Competition and Consumer Commission
ACCI	Australian Chamber of Commerce and Industry
ADG Code	Australia Code for the Transport of Dangerous Goods by Road and Rail
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
APPEA	Australian Petroleum Production and Exploration Association Limited
APRA	Australian Prudential Regulation Authority
ARA	Australian Retailers Association
ASBFEO	Australian Small Business and Family Enterprise Ombudsman
ATA	Australian Trucking Association
ATO	Australian Taxation Office
Austrade	Australian Trade and Investment Commission
AVCAL	Australian Private Equity and Venture Capital Association Limited
BCA	Business Council of Australia
BCCM	Business Council of Co-operatives and Mutuals

BCI	building and construction industry
BRS	Business Registration Service
BTF	Biomedical Translation Fund
C&I	commercial and industrial
CME	Cooperative and Mutual Enterprise
CNL	Co-operatives National Law
COAG	Council of Australian Governments
CRC	Cooperative Research Centre
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DFAT	Department of Foreign Affairs and Trade
DIIS	Department of Industry, Innovation and Science
EMDG	Export Market Development Grants
EPBC Act	*Environment Protection and Biodiversity Conservation Act 1999*
ESVCLP	early-stage venture capital limited partnership
FDI	foreign direct investment
FIRB	Foreign Investment Review Board
FTA	Free Trade Agreement
FWC	Fair Work Commission
GST	Goods and Services Tax
GTS	Global Talent Scheme
HVNL	Heavy Vehicle National Law
ISA	Innovation Science Australia
LMT	labour market testing
MCA	Minerals Council of Australia

MTA	Motor Trades Association
NBN	National Broadband Network
NBSG	national broadband service guarantee
NBSI	National Business Simplification Initiative
NEM	National Energy Market
NHVR	National Heavy Vehicle Regulator
NISA	National Innovation and Science Agenda
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority
OECD	Organisation of Economic Co-operation and Development
PE	private equity
PIAC	Public Interest Advocacy Centre
PRRT	petroleum resources rent tax
R&D	research and development
R&DTI	Research and Development Tax Incentive
RMAC	Red Meat Advisory Council
SME	Small and Medium Enterprise
STEM	science, technology, engineering and mathematics
STP	Single Touch Payroll
TSS	Temporary Skill Shortage
VC	venture capital
VCLP	venture capital limited partnership

Recommendations

2 Regulatory roadblocks

Recommendation 1 (paragraph 2.135)

The committee recommends that the Australian Government, in cooperation with state and territory and local governments, continue to identify areas and industry sectors for streamlining business engagement with governments through projects such as the National Business Simplification Initiative, and implement reforms where there is scope for reducing the layers of regulatory burden for starting and operating businesses.

Recommendation 2 (paragraph 2.140)

The committee recommends that through the Council of Australian Governments, the Australian Government and state and territory governments develop and adopt a set of nationally consistent laws on electrical safety.

Recommendation 3 (paragraph 2.146)

The committee recommends that the Australian Government, in consultation with states and territories, consider establishing a single national regulator for cooperative enterprises.

Recommendation 4 (paragraph 2.150)

The committee recommends that the Australian Government publish an update on the progress of industry consultations and work on reforms to the restrictions on the parallel importation of books, including any timeline on implementation.

Recommendation 5 (paragraph 2.153)

The committee recommends that the Australian Standards on clothing labels be updated to bring them in line with international standards.

Recommendation 6 (paragraph 2.156)

The committee recommends that the Australian Government, when identifying areas for streamlining business engagement with governments as set out in Recommendation 1, should include small business engagement with governments on workplace relations matters.

When considering options, the governments should have regard to the Australian Small Business and Family Enterprise Ombudsman's proposals in the *Workplace Relations – simplification for small business* paper and the recommendations from the government joint project looking at how governments might encourage small business employment.

3 Innovation policies

Recommendation 7 (paragraph 3.124)

The committee recommends that the Australian Government consider recommiting to the National Science and Innovation Agenda (NISA), and making provision from the 2019-2020 Budget to fund NISA initiatives for another four years.

4 Taxation policies

Recommendation 8 (paragraph 4.51)

The committee recommends that the Australian Government reduce the company tax rate in Australia to 25 per cent for all companies by 2026-27.

Recommendation 9 (paragraph 4.56)

The committee recommends that the Australian Government set the instant asset write-off threshold at $25,000 for small and medium enterprises on an ongoing basis.

5 Electricity: Price and reliability

Recommendation 10 (paragraph 5.54)

The committee recommends that the Australian Government continues its focus on improving reliability and price in electricity.

6 Other issues

Recommendation 11 (paragraph 6.81)

The committee recommends that the Australian Government review the Export Market Development Grants scheme to ensure that the level of funding is sufficient to assist local small and medium-sized Australian businesses to increase their engagement with the global marketplace.

In undertaking the review, the Australian Government should consider the new export opportunities arising from recent free trade agreements, including the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* and the *Indonesia–Australia Comprehensive Economic Partnership Agreement*.

Recommendation 12 (paragraph 6.92)

The committee recommends that the Australian Government adopts the following initiatives to enhance National Broadband Network (NBN) customer outcomes:

- require a competition impact statement to accompany all proposed policy and regulation, and
- recommit to a separated wholesale-only NBN selling on a non-discriminatory basis.

1

Business investment in Australia

Background

1.1 In referring the inquiry into impediments to business investment to the House of Representatives Standing Committee on Economics (the committee), the then Treasurer noted the *Intergovernmental Review of Business Investment* (the Review).

1.2 The Review arose from Australian governments' concerns that in recent years, business investment in Australia, outside the mining sector, had underperformed relative to the strengths of the broader economy. In December 2016, the Council on Federal Financial Relations requested that Heads of Commonwealth, State and Territory Treasuries consult with industry to determine factors that might be impeding a broader recovery in business investment.

1.3 The Heads of Treasuries consulted with small, medium and large businesses and peak industry bodies across a range of industries. The Review found that a complex mix of structural and cyclical factors, and institutional and policy factors are influencing business investment in Australia.

1.4 The Review stated that the trend in business investment in non-mining sectors has been 'less encouraging over the decade'.[1] It noted that a number of factors have contributed to the underperformance of Australia's business investment, including:

- positive and negative spill overs from the mining boom

1 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 8.

- slow recovery of confidence from the global financial crisis
- evolving technological landscape and shifts in demand to less capital intensive sectors
- changing business strategies and low appetite for risk
- elevated uncertainty: technological innovations, macroeconomic, geo-political and domestic policy
- high regulatory and tax burden
- energy affordability and reliability, and
- working capital constraints for small and medium-sized enterprises.[2]

1.5 The Review outlined the following key points in relation to the effect of institutional settings and policies on business investment:

- All levels of government influence the business environment as they set the institutional frameworks in which businesses operate.
- Predictable, stable and transparent business regulation and supervision, at all levels of government, is an important precondition for business investment.
- Stakeholders raised significant concerns about policy and regulatory instability – the pace of regulatory change itself is an issue, not just the level of regulation.
- Developments in government policy and regulations, notably at the intersection of state and Commonwealth roles and responsibilities, continue to remain a source of uncertainty for many participants.[3]

1.6 The committee's terms of reference for the inquiry into impediments to business investment include certain institutional and policy areas covered in the Review.

Sources of business investment

1.7 Access to funds is crucial for businesses to grow through investing in new productive capacity. This involves business using equity financing (from within the business or from external investment sources) or by debt financing.

2 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 1.

3 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 23.

Foreign investment

1.8 Attracting investment is one of the guiding pillars of the Australian Government's economic diplomacy strategy when engaging internationally. The Department of Foreign Affairs and Trade (DFAT) and Australian Trade and Investment Commission (Austrade) submission described Australia as a 'large, resource-rich country with a high demand for capital.'[4]

1.9 Foreign investment provides Australia with capital to finance new industries and enhance existing industries. It also opens up new business connections in different international markets and boosts Australia's export performance.

1.10 In particular, Austrade has sought to attract foreign investment in the priority areas of: advanced manufacturing, services and technology; agribusiness and food; resources and energy; major infrastructure; and tourism infrastructure. Investment in Northern Australia has also been a focus area in recent years.

1.11 Foreign investment helps meet the gap between Australia's national investments and savings, which in recent decades on average has been around four per cent of GDP.[5] In its fourth Investment Statement to the Parliament on 6 December 2017, the Government stated:

> Our open, well-regulated and stable economy, underpinned by strong institutions and a talented, highly skilled workforce, ensures Australia remains in an excellent position to continue to attract investment.
>
> Australia's unique advantages, and this Government's economic and policy credentials have seen total foreign investment stocks in Australia rise by $153 billion or 5 per cent to $3.2 trillion at the end of 2016.
>
> In 2016, the quantum of new foreign direct investment (or FDI) into Australia was $112.4 billion, showing Australia remains an attractive and trusted investment destination.[6]

1.12 FDI typically involves a large, long-term commitment from an investor. Australia ranked 13th in 2017 on the list of economies receiving direct foreign inward investment. The five main sources of FDI to Australia in

4 Department of Foreign Affairs (DFAT) and Australian Trade and Investment Commission (Austrade), *Submission 19*, p. 3.

5 DFAT and Austrade, *Submission 19*, pp. 5-6.

6 DFAT and Austrade, *Submission 19*, pp. 14-15.

2017 were the United States, Japan, the United Kingdom, the Netherlands and China.

1.13 A quarter of large businesses in Australia are more than 50 per cent foreign owned. Foreign owned companies also employ a significant number of Australians. For example, US-affiliated firms in Australia employ approximately 372,000 locals—roughly one in 32 Australian jobs.[7]

1.14 In relation to the resources sector, the Minerals Council of Australia (MCA) highlighted that:

> The value of foreign direct investment in Australia's resources sector increased eight-fold between 2001 and 2016, from $36.8 billion to $310.6 billion. Over the same period, the number of Australians employed in the resources sector grew from around 80,000 to 217,000.[8]

1.15 The MCA commented that the value of international investment in minerals is largely retained in Australia, with 77 per cent of the revenue earned by the nation's major iron ore producers paid to suppliers or as taxes and royalties to governments.[9]

1.16 Given the significance of foreign investment to the Australian economy, it is important that Australia remains attractive to foreign investors. It follows that—while having due regard to national interest and necessary regulation—wherever possible, policies and supporting regulations, across all levels of government, should encourage business investment and growth opportunities.

1.17 However, evidence to the committee suggests that there are some areas of government policy and regulation that could impede foreign investment in Australia.

Private equity and venture capital

1.18 Private equity (PE) and venture capital (VC) involve investing money in companies. VC is usually used for investments in early stage firms, and PE for growth, expansion and buyout stages, although there can be some overlap.

7 DFAT and Austrade, *Submission 19*, p. 5.

8 Minerals Council of Australia (MCA), *Submission 17*, p. 12.

9 MCA, *Submission 17*, pp. 12-13.

1.19 A significant portion of PE and VC is sourced from institutional investors based offshore. This further illustrates the need to ensure Australia's foreign investment framework is working efficiently, so that Australia is competitive in attracting capital.

1.20 PE and VC provide an important source of funding for businesses. In 2017, PE and VC firms invested around $3.6 billion in Australian businesses. It is particularly useful for funding innovation. The Australian Private Equity and Venture Capital Association Limited (AVCAL) highlighted that PE and VC are not just an injection of capital, it is 'smart capital' as it:

> …brings with it access to industry expertise, access to networks and other elements of business strategy input and advice that normally are not consistent with other forms of funding or financing such as debt. Private equity and venture fund managers partner with entrepreneurs, who sometimes lack the experience and resources to be able to fulfil and realise their firm's full global potential. Our private equity and venture firms regularly meet those funding and experience gaps by providing crucial support at critical stages of a company's life cycle.[10]

1.21 However, the demand for PE and VC often outstrips available funds, or it may not be a viable option for firms that do not want to share ownership.

1.22 The Department of Industry, Innovation and Science (DIIS) acknowledged that venture capital does not suit every firm. It further observed that there has been a 'market failure in Australia in terms of the size of the venture capital sector and the availability of risk capital.'[11] DIIS stated that:

> It's fair to say that in Australia, by world standards, we don't have a significantly large venture capital sector and a large number of fund managers.[12]

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10 Mr Yasser El-Ansary, Chief Executive, Australian Private Equity and Venture Capital Association Limited (AVCAL), *Committee Hansard*, 31 July 2018, p. 16.

11 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, Department of Industry, Innovation and Science (DIIS), *Committee Hansard*, 7 August 2018, p. 11.

12 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

1.23 However, DIIS indicated that there has been a lot of growth in this area in the last few years, with the Australian Government driving growth in venture capital and early-stage investment through some of its tax concession programs.[13]

1.24 CSL and Cochlear cautioned that attracting more venture capital was 'not necessarily the only answer as venture capital generally seeks increased value in the shortest time possible to create a high rate of return.'[14] The firms suggested that to help retain Australian businesses and intellectual property, the Government should consider:

> …an initiative aimed at encouraging the investment of Australian-centric, patient capital in mature life sciences companies in a way that will anchor their headquarters and a significant part of their operations in Australia for the longer term.[15]

1.25 A significant portion of PE and VC funds are comprised of Australian superannuation funds and offshore pension funds. AVCAL commented that Australia's compulsory defined contribution pension system at the moment is possibly the third largest accumulated savings pool in the world.

1.26 AVCAL argued that there is an opportunity in the medium and longer term to make changes to the policy and regulation of Australia's pension and superannuation system to allow for greater investment flexibility with these funds. It argued that in the past decade superannuation funds have been incentivised to focus on reducing their fees and not on delivering 'exceptionally good performance' to their members.[16]

Government support and partnerships

1.27 Australian governments at all levels must provide a policy environment and regulatory framework conducive to investment and innovation.

1.28 Government grants play a role in supporting Australian businesses. There are various funds and grants at the Commonwealth and state and territory levels that are available to assist businesses.

13 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

14 CSL and Cochlear, *Submission 13*, p. 16.

15 CSL and Cochlear, *Submission 13*, p. 16.

16 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 18.

1.29 In the areas of innovation, and the medical technology and advanced manufacturing sectors, CSL and Cochlear commented that:

> While several of these programs are well-targeted and are proving effective, many have been developed and implemented without sufficient coordination or consolidation at the state and Commonwealth level. Industry is facing an increasingly crowded policy and program landscape that can be confusing to navigate particularly for start-ups and small to medium enterprises (SMEs).[17]

1.30 While Cochlear is now a very successful Australia company, it acknowledged that it is around 'because of the million-dollar funding that happened about 30 years ago by the federal government.'[18] It told the committee that:

> I guess they were willing to risk that million dollars at that point in time, along with nine other investments which didn't go that well. But we certainly did. In that initial tender, they married us up with the bionic ear from Graeme Clark here in Melbourne and the nucleus group at the time, who were a venture capitalist. They submitted the tender for the first bionic ear, and from then the rest is history. If it weren't for that—which the Australian federal government, the Fraser government at the time, funded—we mightn't be here.[19]

1.31 The Cooperative Research Centre (CRC) Program provides grants to foster high quality research and solve industry-identified problems through industry-led and outcome-focused collaborative research partnerships.

1.32 Another example of a grant supporting Australian businesses is the Export Market Development Grants (EMDG) scheme. It provides financial assistance for aspiring and current exporters. The 2016-17 appropriation for the grant was $137.9 million, with the initial payment ceiling of the first tranche of recipients at $40,000.

1.33 The Australian Government has been supporting business investment through its co-investment funds targeted at certain sectors, including the biomedical and health sectors.

17 CSL and Cochlear, *Submission 13*, p. 12.

18 Mr Brent Cubis, Chief Financial Officer, Cochlear Ltd, *Committee Hansard*, 1 August 2018, p. 28.

19 Mr Brent Cubis, Chief Financial Officer, Cochlear Ltd, *Committee Hansard*, 1 August 2018, pp. 28-29.

1.34 Some submitter proposals for enhancing government and private sector cooperation are discussed in the chapter on innovation. For example, AVCAL recommended government equity co-investment programs modelled on the current $500 million Biomedical Translation Fund. It argued that:

> There is significant potential for an Australian Government-backed equity co-investment program to help address some of the above market gaps, while driving significant growth and job creation across the economy. Other governments around the world have recognised and taken steps to address these same problems.[20]

Fintech and crowdfunding

1.35 There is support for having alternative funding sources, like financial technology (fintech) and crowdfunding. It is particularly important for innovative and early-stage businesses to be able to access different forms of finance, as they can have difficulty accessing funding from traditional sources.

1.36 Fintech is an emerging financial services sector that uses technology and innovative business models to originate, assess credit risk and fund loans. It is usually characterised by easier application processes and quicker turnaround times, and provides an alternative credit source, especially for small businesses that may experience difficulties accessing traditional bank loans. Typical loans are around $100,000 or $150,000, but could be higher.

1.37 Crowdfunding is a rapidly evolving industry and another method of financing business ventures. The practice generally involves finding supporters and raising funds for a project or venture using internet platforms, subscription lists, benefit events and other methods. The current main types of crowdfunding are: donation-based, reward-based, equity-based and debt-based.

1.38 In particular, crowdfunding can benefit early stage companies that have considerable growth potential. However, AVCAL noted that crowdfunding 'it is not a source of ongoing enduring capital that allows that company to be able to scale up and reach its full potential in a more global economic sense.'[21]

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20 AVCAL, *Submission 11*, p. 9.

21 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 17.

1.39 The Australian Government has extended crowdfunding eligibility to provide small businesses and start-ups with easier access to funding. Changes made by the *Corporations Amendment (Crowd-sourced Funding for Proprietary Companies) Act 2018* include allowing proprietary companies to crowdfund and retain the greater flexibility under the Corporations law, where previously they were required to convert to a public company entity. The changes will enable greater access for individuals to early-stage investment opportunities.

1.40 DIIS noted that through crowd-funding a large number of individuals can make small financial investments in a company, in exchange for an equity stake in the company. It stated that the regulatory framework 'strikes a balance between encouraging investment and protecting investors.'[22]

Investment competitiveness

1.41 Australia's stable democracy, with strong government institutions and rule of law, are significant factors in making the country attractive to foreign investors. Australia's years of continuous economic growth has also played an important part in investment decision-making.

1.42 Other factors that investors look at when making investment decisions, include: tax rates; availability of skilled labour; Australia's high quality assets; proximity to Asia; and competitiveness of the industry and export and local market opportunities for that industry.

1.43 Australia's comprehensive Free Trade Agreements (FTAs) provide a competitive edge for Australian exporters and lower prices for Australian customers. Australia's FTA partners include New Zealand, Japan, South Korea, China, Singapore and Chile.

1.44 However, submitters cautioned that Australia's competitiveness is not guaranteed. There are some ways in which Australia is becoming less competitive as a destination for foreign investment, and for keeping operations in Australia when local businesses are growing. These include: the cumulative burden of complying with regulation; comparatively higher corporate tax rates; challenges in accessing affordable and reliable energy, in particular electricity; and the need to enhance support for innovation.

22 DIIS, *Submission 24*, p. 12.

1.45 When questioned on what it would mean for Australia to become less competitive, KMPG stated that:

> The impact will be that foreign investors will choose to invest in other countries rather than Australia in the future and something that won't be seen that will be missing in people's lives—something that is a counterfactual, if you like—is actually increased jobs, higher real wages and increased welfare.[23]

Certainty

1.46 The Review found that in the area of political and policy uncertainty, while 'Australia compares well to overseas experience, many businesses feel that it is currently elevated in Australia'.[24] In evidence to the committee, the Business Council of Australia cautioned that:

> While individual policy decisions may be discounted as 'one-offs', taken together, they are having significant ramifications, increasing risk and chilling decisions to invest in Australia. These atmospherics are not conducive to a rekindling of confidence and 'animal spirits'.[25]

1.47 In their submission, DFAT and Austrade acknowledged that:

> Actual or perceived stability, certainty, transparency and consistency in the regulatory and business environment help maintain Australia's competitiveness and attractiveness as an investment destination. Disproportionate regulatory restrictions and inefficient regulatory regimes, including regulatory differences between different jurisdictions, make Australia a less attractive destination for foreign investment. This affects our long-term economic prosperity.[26]

1.48 Having a reasonable degree of certainty to enable firms to plan for the medium and longer term is particularly important when firms are investing in major, long-term projects. INPEX observed that:

> Consistently clear decisions and trajectory in policy development provide a high level of confidence for potential investors and

23 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 3.

24 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 19.

25 Business Council of Australia, *Submission 29*, p. 5

26 DFAT and Austrade, *Submission 19*, p. 3.

> lowers the risk associated with investments. For a 40 year project like Ichthys, it is difficult to adjust the commercial parameters in reaction to unforeseen policy decisions, and this can result in a downward revision in project economics. Such practices can dampen investment by creating a higher risk hurdle for future decisions.[27]

Cumulative burden of complying with regulation

1.49 While regulation of business does have an important function in protecting Australia's interests and consumers by ensuring appropriate standards are met, compliance with numerous and complex regulation can be costly for business.

1.50 During the intergovernmental review, it was noted that Australia's regulatory environment may be contributing to the country's declining competitiveness. The Review found in relation to regulation that:

- There is widespread concern about the high level of red tape required to do business in Australia, and the high regulatory burden, in terms of the sheer volume of regulation and compliance costs.
- The often piecemeal approach to regulation, and the cumulative burden it is having on businesses, was identified as a dis-incentive to investing in Australia.
- Given the pervasiveness of our regulatory environment, governments should be ever vigilant to ensure an appropriate balance between intervention and cost is achieved.
- A clear framework for making and managing regulation, rather than a single focus on red tape reduction, should be advocated across all levels of government.
- A greater focus should be placed on evaluating the burden of regulatory changes after they are made, as well as before.
- Selecting a small number of meaningful reform areas of regulation and significantly reducing the compliance burden in these could have meaningful impacts for industry.[28]

1.51 Evidence to the committee showed that the cost of doing business in Australia continued to be of significant concern to businesses and stakeholders. It is not typically any single specific regulation that is solely the problem, but the cumulative burden on businesses having to comply with numerous and sometimes complex regulations, which may even be

27 INPEX, *Submission 22*, p. 5.

28 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 25.

duplicated across Commonwealth, state or territory, and local government.

1.52 How regulation has impacted on various sectors and opportunities for simplifying and harmonising regulation of business are discussed in Chapter 2.

Tax rates and complexity

1.53 It is clear that tax has become an increasingly important consideration as competition for foreign investment intensifies and businesses are more mobile. The committee heard that Australia's comparatively high company tax rate, and other complexities in Australia's tax system, can negatively impact Australia's ability to attract foreign investment, and to keep local and foreign businesses' operations based in Australia.

1.54 When discussing taxation as an impediment to business investment, the Review found that:

> - Australia's high corporate tax rate by international standards acts as a barrier to investment in Australia.
> - Large multinational companies not paying their 'fair share' of tax put other businesses at a competitive disadvantage – a level playing field is required.
> - Some SMEs consider payroll taxes act as a disincentive to expand employment and investment.
> - Given the long timeframes of many investments, the tax environment and policies should remain relatively stable and avoid creating impediments to new investment, particularly in terms of international competition.[29]

1.55 To remain competitive in a dynamic global environment, Australia must foster a tax environment that provides:

- competitive company tax rates
- deductions and write-offs that encourage and facilitate investment, innovation and growth
- reasonable certainty in tax rates and arrangements to allow for medium to long-term business planning
- reduces complexity, where possible, by harmonising arrangements across jurisdictions.

29 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 33.

1.56 These and related issues are discussed in Chapter 4.

Challenges to accessing affordable and reliable energy

1.57 Energy policies are another factor affecting Australia's trade and investment competitiveness. Australia's manufacturing, mining and most other industry sectors rely on affordable and reliable energy inputs. Energy policies are also important for supporting emerging technologies, such as electric vehicles and battery storage.

1.58 The Review identified energy policy as an area of concern. It found that:

- Affordable and reliable energy is crucial for investment decisions by small and large businesses across Australia.
- Signals for new long-term generation investments require a nationally agreed and widely supported policy framework.
- The recent increase in gas and electricity prices, and the continued uncertainty around their outlook, requires concerted effort by State and Commonwealth Governments to deliver the reforms required for a reliable, affordable and sustainable energy market.
- The rapid implementation of recommendations on energy security and the gas supply strategy from Dr Alan Finkel's Independent Review into the Future Security of the National Electricity Market should remain a matter of priority.[30]

1.59 During the inquiry, access to affordable and reliable electricity, in particular, was identified as an impediment to business investment and growth. Access to affordable and reliable electricity supply is covered in Chapter 5.

Conclusions

1.60 A number of factors determine a country's competitiveness as a destination for business investment. The committee recognises that due to its overall stability and strong institutions Australia remains well positioned to attract foreign investment, but cannot afford to be complacent. Government at all levels must ensure that it fosters an environment in which businesses have the tools to succeed.

30 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 31.

Other key themes

Small and medium enterprises

1.61 Many of the challenges impeding businesses more generally can have a disproportionate impact on small businesses, as they often lack the scale and resources to adequately deal with impediments such as the cost of regulatory compliance, high energy costs and delayed supplier payment times.

1.62 Master Builders Australia submitted that as part of the agenda to reduce the regulatory burden, the Government should focus on removing regulations which have the greatest impact on small business.[31]

1.63 Access to credit and the cost of debt financing is also a concern for some SMEs. These businesses generally rely on banks and other lenders, while large businesses have more diverse sources of finance, and have greater capacity to draw on equity.

1.64 The Australian Small Business and Family Ombudsman (ASBFEO) observed in its report on barriers to investment that:

> Resounding feedback from the sector is that access to finance remains a significant barrier despite a healthy pipeline of businesses suitable for investment. If there are barriers to access to finance then this stifles business growth, employment and investment. Our market simply does not work well for smaller businesses.[32]

1.65 In evidence to the committee, ABSFEO stressed that affordable capital is fundamental to business growth. It noted that 'in recent days the Reserve Bank of Australia stated that it's not the absence of entrepreneurial spirit, it's the absence of entrepreneurial finance that's been the main factor holding back small business in our economy.'[33]

1.66 The committee also heard that prudential regulation has negatively impacted the affordability of small business loans. ASBFEO stated:

> APRA's [Australian Prudential and Regulation Authority] move to set almost a one-size-fits-all model has created a situation where,

31 Master Builders Australia, *Submission 18*, p. 10.

32 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Barriers to Investment: A study into factors impacting small to medium enterprise investment*, November 2017, p. 2.

33 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 1.

> for banks, it's much more cost-effective and more profit-effective for them to lend on homes. That's where you make a quid. Small businesses are too hard.[34]

1.67 Small business loan rates differ from homes loans, with small business paying significantly more, even when secured against property. In relation to contract terms, ASBFEO commented that:

> As we found in our inquiry into small business loans, the contracts were incredibly one-sided and the issues of non-financial defaults were real. A lot of those issues have been improved, hopefully, as a result of the work we've done and then by the work that's been done by ASIC, the new banking code and the unfair contract term legislation.[35]

1.68 Since small businesses generally need to rely on existing homes as security for their business loans, this limits further investment and growth, as entrepreneurs can only use this brick and mortar security once.

1.69 The committee heard that one outcome of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which is already starting to be seen now, is banks tightening their lending both for residential and small business loans.

1.70 In relation to alternative funding sources for SMEs, as noted earlier, fintechs disrupters are providing SMEs with an alternative source of funding, but typically around $150,000 for unsecured loans.

1.71 AVCAL stressed that the majority of PE and VC investment in Australia is directed to SMEs.[36]

1.72 On 14 November 2018 the Treasurer, the Hon Josh Frydenberg MP, announced the introduction of a $2 billion Australian Securitisation Fund.

1.73 In the media release the Treasurer acknowledged the difficulties small businesses face in accessing financing, and that even when they can access finance, the 'funding costs are higher than they need to be.'[37] The Treasurer stated:

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34 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 5.

35 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 6.

36 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 16.

37 Treasurer, the Hon Josh Frydenberg MP, and the Minister for Small and Family Business, Skills and Vocational Education, Senator the Hon Michaelia Cash, '$2 billion fund to transform

> To overcome this and ensure that small businesses are able to fulfill their potential and continue to underpin economic growth and employment, the Australian Business Securitisation Fund will invest up to $2 billion in the securitisation market, providing significant additional funding to smaller banks and non-bank lenders to on-lend to small businesses on more competitive terms.[38]

1.74 The Treasurer also announced that the Australian Government is consulting with APRA and other financial institutions on establishing an Australian Business Growth Fund 'that would provide longer term equity funding to small business.'[39] The Australian Business Growth Fund is expected to follow similar international funds like the UK Business Growth Fund. The Treasurer stated:

> A similar fund has not emerged in Australia, in part, as a result of the unfavourable treatment of equity for regulatory capital purposes. APRA has indicated that it is willing to review these arrangements to assist in facilitating the establishment of the Australian Business Growth Fund.[40]

Tight profit margins

1.75 A number of industries face tight margins and are less able to meet the challenge of high costs. For example, Bland Shire Council told the committee that:

> The rising energy costs have affected the profitability of businesses and businesses are reporting bill stress and taking on more debt. The squeeze on profitability is affecting business investment and having the ability to pay staff higher wages.[41]

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small business access to funding', *Joint media release*, 14 November 2018, <http://jaf.ministers.treasury.gov.au/media-release/051-2018/>, accessed 14 November 2018.

38 Treasurer, the Hon Josh Frydenberg MP, and the Minister for Small and Family Business, Skills and Vocational Education, Senator the Hon Michaelia Cash, '$2 billion fund to transform small business access to funding', *Joint media release*, 14 November 2018, <http://jaf.ministers.treasury.gov.au/media-release/051-2018/>, accessed 14 November 2018.

39 Treasurer, the Hon Josh Frydenberg MP, and the Minister for Small and Family Business, Skills and Vocational Education, Senator the Hon Michaelia Cash, '$2 billion fund to transform small business access to funding', *Joint media release*, 14 November 2018, <http://jaf.ministers.treasury.gov.au/media-release/051-2018/>, accessed 14 November 2018.

40 Treasurer, the Hon Josh Frydenberg MP, and the Minister for Small and Family Business, Skills and Vocational Education, Senator the Hon Michaelia Cash, '$2 billion fund to transform small business access to funding', *Joint media release*, 14 November 2018, <http://jaf.ministers.treasury.gov.au/media-release/051-2018/>, accessed 14 November 2018.

41 Bland Shire Council, *Submission* 14, p. 13.

1.76 The Red Meat Advisory Council submitted that the cost of regulation for Australian red meat and livestock businesses is extremely high—anywhere from five to 25 per cent of total profit margins. Further, it noted that as red meat processing is an energy-intensive activity—around eight per cent of total meat processing costs—rising energy costs 'are putting significant pressure on the ability of processors to remain profitable.'[42]

1.77 The Australian Trucking Association noted that the trucking industry is comprised of mainly small businesses and is characterised by tight margins. It stated that Australia and New Zealand Bank research 'shows that the median EBIT [Earnings Before Interest and Taxes] margin for trucking businesses was 4.2 per cent in 2015', with the 'bottom quartile of trucking businesses recorded negative, unsustainable EBIT margins.'[43]

1.78 The Motor Trades Association Queensland (MTA Queensland) commented that in the area of car sales, while the revenues are high, 'the profit margins are very, very low', with the margin on new cars between one and two per cent. MTA Queensland argued that this is 'only going to be exacerbated in the coming years, with recent changes from the ACCC's findings around the way in which finance products are able to be sold within dealerships.'[44]

Regional areas

1.79 Certain challenges are exacerbated for businesses in regional areas. While some regional centres are attracting people as cost of living pressures rise in city centres, some regional towns are experiencing reduced economic activity and reduced population.

1.80 The committee heard that Townville and the surrounding areas are struggling to attract investment, 'resulting in a continued loss of business registrations and employment opportunities.'[45] Townsville Enterprise Limited recommended that governments explore options for investment or tax incentives to encourage investment in regional areas.

1.81 The Bland Shire Council called for decentralisation policies that brought more jobs and people to smaller regional areas. It supported relocating public sector jobs to the regions, and argued that 'one or two new full-

42 Red Meat Advisory Council, *Submission 20*, pp. 4 and 12.

43 Australian Trucking Association, *Submission 7*, p. 16.

44 Mr Brett Dale, Group Chief Executive, Motor Trades Association Queensland, *Committee Hansard*, 22 August 2018, p. 2.

45 Townsville Enterprise Limited, *Submission 27*, p. 4.

time positions in the smaller regional centres is definitely worth more than ten new full time positions in the larger regional centres.'[46]

1.82 In relation to accessing Australian Government and state grants in regional areas, Bland Shire Council raised concerns that the grants were usually oversubscribed, were demanding and time consuming to apply for and acquit, and that the requirement for co-contributions was not feasible for most regional councils.[47]

Scope and conduct of the inquiry

1.83 On 27 March 2018, the then Treasurer, the Hon Scott Morrison MP, asked the committee to inquire into and report on impediments to business investment in Australia. The terms of reference included examining the effect on business investment of: the interaction between regulatory frameworks across all levels of government; governments' innovation, taxation and energy policies; and supplier payment times.

1.84 The details of this inquiry were published on the committee's webpage, and a media release was issued seeking submissions. The committee received 37 submissions and 8 supplementary submissions, which are listed in Appendix A.

1.85 The committee also held public hearings in Sydney on 31 July 2018, in Melbourne on 1 August 2018, and in Canberra on 7 and 22 August, 12 September and 17 October 2018. The hearings were webcast through the Australian Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. Hearing witness details are provided in Appendix B.

1.86 Submissions and transcripts of public hearings are available on the committee's webpage at: https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/Barrierstoinvestment.

46 Bland Shire Council, *Submission 14*, p. 17.

47 Bland Shire Council, *Submission 14*, pp. 14-15.

Structure of report

1.87 Chapter 2 examines government regulation at the Commonwealth, state and local levels. It discusses where this regulation may impede business investment, and some ways in which these regulatory roadblocks can be addressed.

1.88 Chapter 3 considers how current innovation policies affect research and development and innovation by businesses.

1.89 Chapter 4 examines the impact of Australian taxation policies on levels of business investment, including Australia's international competitiveness in attracting foreign business investment.

1.90 Chapter 5 discusses electricity prices and reliability of supply for business customers.

1.91 Chapter 6 considers the importance of communications and transport infrastructure to enable business growth. The chapter also covers supplier payments times and practices. It examines the impact of late payments on cash flow and business growth, particularly for small businesses.

2

Regulatory roadblocks

2.1 The volume of regulation and associated compliance costs are negatively impacting on businesses. It can impede investment by using resources that would otherwise be directed to expanding output, especially for small businesses which typically lack the time, expertise and financial resources to deal with the cumulative regulatory burden.

2.2 The Business Council of Australia argued that despite efforts to reduce red tape, the cumulative burden of regulation on business is increasing not decreasing. It stated that:

> All too often, regulation and intervention are the first resort of policy-makers to deal with a perceived market failure and cost-benefit assessments are either by-passed or given mere lip service. Excessive regulation risks undermining the incentives that drive businesses to invest and innovate in the first place.[1]

2.3 When announcing the referral of the inquiry to the committee, the then Treasurer, the Hon Scott Morrison MP, noted feedback from businesses that regulations are a major impediment to investment and stated:

> The Australian Government has cut more than $5.8 billion of red-tape and will continue to search for opportunities to go further, including through the Small Business Regulatory Reform Agenda…announced in last year's Budget.[2]

2.4 The World Bank's *Doing Business* publication for 2017 ranked Australia 14th (of the 190 countries assessed) in ease of doing business. It ranked behind New Zealand, Singapore, Denmark, South Korea, Hong Kong

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1 Business Council of Australia (BCA), *Submission 29*, p. 6.

2 Treasurer, the Hon Scott Morrison MP, 'Inquiry into the impediments to business investment in Australia', *Media Release*, 29 March 2018, <http://sjm.ministers.treasury.gov.au/media-release/030-2018/>, accessed 28 September 2018.

special administrative region, the United States, the United Kingdom, Norway, Georgia, Sweden, Macedonia and Finland.

2.5 The Australian Retailers Association (ARA) also noted that the World Economic Forum's *Global Competitiveness Index* ranked Australia as 80 out of 137 in the burden of government regulation category.[3]

2.6 Uncertainty can negatively impact on Australia's attractiveness to foreign and domestic investors. The Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade) commented that increasing regulatory efficiency and harmonisation would increase Australia's competitiveness. They further stated that:

> Any necessary regulatory changes should be clearly communicated, which is central to maintaining investor confidence in the Australian market. As far as possible, our policy settings should provide investors with the certainty they need to support long-term investment.[4]

2.7 Evidence to the committee suggested while there are certainly specific regulatory frameworks and regulations themselves that need improving, it is the overall cumulative effect of regulation that is placing a burden on business and by extension impeding investment.

2.8 However, the Public Interest Advocacy Centre (PIAC) cautioned against taking a narrow view of regulation and regulatory structures as simply 'a burden imposed upon business that would otherwise invest more effectively in their absence.'[5] It argued that:

> …effective regulation exists to provide a framework of stability and certainty to both businesses and consumers, allowing both to make decisions with confidence.[6]

2.9 The Institute of Public Affairs meanwhile proposed a very direct approach to reducing red-tape; introducing a 'one-in two-out' approach, in which two existing regulations are repealed for every new one introduced.[7] It suggested that this would address the wider issue that while red-tape

3 Australian Retailers Association, *Submission 15*, p. 4.

4 Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade), *Submission 19*, p. 8.

5 Mr Miyuru Ediriweera, Senior Policy Officer, Public Interest Advocacy Centre (PIAC), *Committee Hansard*, 31 July 2018, p. 50.

6 Mr Miyuru Ediriweera, Senior Policy Officer, PIAC, *Committee Hansard*, 31 July 2018, p. 50.

7 Mr Daniel Wild, Research Fellow, Institute of Public Affairs, *Committee Hansard*, 1 August 2018, p. 43.

reduction efforts may be streamlining and removing unnecessary regulations, new regulations are still being made.

Improving business engagement with government

2.10 When announcing the referral of the inquiry to the committee, the then Treasurer, the Hon Scott Morrison MP, noted feedback that businesses were finding it 'particularly difficult when they are required to interact with multiple levels of government.'[8]

2.11 The committee heard that business expects to be able to engage efficiently with government. Whether starting a business or in its normal operations, businesses do not want to have to provide similar information to different levels of government in cases where there is regulatory duplication.

2.12 The Motor Trades Association Queensland (MTA Queensland) called for ongoing reform to simplify and reduce unnecessary and excessive legislative requirements, and to streamline processes to improve timeliness in government decision making. It outlined that in the automotive sector:

> The regulatory requirements by all levels of governments applying to the automotive value chain are extensive, ranging from legislative policy requirements to business operations and activities, obligations to audit and inspection responsibilities. These need significant investments in capital and resources to respond. The onus is on the SME's to comply or risk penalties.[9]

2.13 Digitisation has significantly enhanced the ability to streamline regulatory frameworks across the different levels of government. However, MTA Queensland submitted that silos are still evident, with 'SMEs having to provide duplicated data/information for approvals or compliance obligations to layers of government entities or regulators.'[10]

2.14 The Department of Industry, Innovation and Science (DIIS) noted that the Australian Government is working to deliver better regulation through the National Business Simplification Initiative (NBSI).

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8 Treasurer, the Hon Scott Morrison MP, 'Inquiry into the impediments to business investment in Australia', *Media Release*, 29 March 2018, <http://sjm.ministers.treasury.gov.au/media-release/030-2018/>, accessed 28 September 2018.

9 Motor Trades Association Queensland (MTA Queensland), *Submission 12*, p. 2.

10 MTA Queensland, *Submission 12*, p. 2

2.15 The NBSI involves an agreement between the Commonwealth, state and territory governments to work together to make it simpler to do business in Australia by:

- focusing on reducing the complexity of regulation by streamlining regulatory and compliance requirements, and
- addressing business demands for simplified digital transactions and tailored information and advice.

2.16 DIIS noted the NBSI is focused on the Australian Government and state and territory governments working on 'small, achievable projects in specific industry sectors.'[11]

2.17 Tasmania and Western Australia nominated ecotourism as a priority area for business simplification. DIIS advised that following consultation with ecotourism businesses on areas of regulatory uncertainty, duplication and burden, changes are being implemented in these states.

2.18 The Tasmanian Government, for example, has been exploring a digital solution bringing together the approval processes required to start an ecotourism business in the state.[12]

2.19 The Tasmanian Government submitted that the work program under the NBSI will positively impact on the state's nature based tourism sector:

> For Tasmanian tourism operators, this provides an opportunity for real savings for businesses so they can focus on growing, creating more jobs, developing new products and exploring new market opportunities. With the tourism industry in Tasmania experiencing unpresented growth and a plan to attract 1.5 million visitors to the State by 2020, improved business investment in the sector is likely to contribute to economic growth and employment opportunities across the State.[13]

2.20 Through the NBSI the Australian Government has improved the Business Licence and Information Service, and the Business Registration Service (BRS), with the Department of the Treasury and the New South Wales Government.

11 Department of Industry, Innovation and Science (DIIS), *Submission 24*, p. 5.

12 DIIS, *Submission 24*, p. 5.

13 Tasmanian Government, *Submission 9*, pp. 1-2.

2.21 The BRS, launched in April 2017, enables businesses to complete multiple registrations online in a single transaction. It connects a range of existing Commonwealth registry services to provide users with a more streamlined service.

2.22 The BRS website moved from its beta form to live on 29 June 2018. Most state and territory governments are providing a link to BRS from their websites. As at 31 July 2018, the BRS had been used by more than 174,000 businesses, with the average time for a sole trader to register a business dropping from 65 minutes to under 15 minutes.[14]

2.23 In May 2017, an NBSI project between the Australian Government and the NSW Government connected the BRS with Service NSW. DIIS stated:

> This has made it easier for people wanting to open a café, bar or restaurant in four local government areas (Parramatta, Georges River, Northern Beaches and Dubbo) to complete necessary registrations and approvals.[15]

2.24 DIIS commented that the NBSI involves government engaging with businesses, especially SMEs, to 'better understand regulatory pain points and business decision-making processes.'[16]

2.25 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) observed that small businesses 'view Government as one body' and in line with this principle governments should only ask SMEs for information once, and provide the technical infrastructure and processes to share the information with other relevant agencies.[17]

2.26 The committee heard that the Parramatta 'Easy to do business' project in New South Wales is doing just that. The project has developed a streamlined online form for new SMEs starting up. The system then distributes information to the relevant local, state and Commonwealth agencies involved in creating and licensing the business.

2.27 While not actually changing the regulatory requirements, this approach significantly reduced the regulatory burden on these new businesses by 'masking red tape and removing duplication.'[18]

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14 DIIS, *Submission 24*, p. 5.

15 DIIS, *Submission 24*, p. 5.

16 DIIS, *Submission 24*, p. 5.

17 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Submission 30*, p. 1.

18 ASBFEO, *Submission 30*, p. 1.

2.28 The ASBFEO emphasised that what this demonstrates is that it is about mindset. If governments are committed to making regulatory compliance and engagement easier for business, then there are many ways that technology and smart forms can be utilised to meet this objective.

2.29 The ASBFEO outlined that the Easy to do business project had reduced the number of forms for opening a restaurant or cafe in Parramatta by more than a third. It stated that:

> In Parramatta there were, I think, 45 different forms you had to fill in if you wanted to open a restaurant or cafe. It would take 18 months. …Instead of forms or requirements being done sequentially, they'd be done in parallel. …Last time I looked, it had got down to under 12 weeks and, I think, 10 or 12 forms, which is still too many but is an incredibly impressive improvement.[19]

2.30 After the pilot in Parramatta, it was extended to Dubbo, Georges River and the Northern Beaches local councils in NSW.

2.31 The committee noted that New South Wales is looking outside Parramatta to regional areas and other industries and are 'prepared to offer that model as a white label product.'[20]

2.32 DIIS also noted that the Major Projects Facilitation Agency now provides a single entry point for major project components seeking tailored information and facilitation of their regulatory approval requirements. This assists businesses that have to comply with various levels of regulatory approvals across different levels of government.

2.33 On 16 November 2018, the Australian Government announced that it will reduce the reporting burden for SMEs by raising financial reporting thresholds.

2.34 To be regarded as a large company for the purposes of Australian Securities and Investments Commission, a company would need to meet two of the three thresholds in a given financial year: $25 million or more in consolidated revenue; $12.5 million or more in consolidated gross assets; or 50 or more employees. The announcement flagged that these thresholds would be doubled.

19 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 4.
20 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 4.

2.35 The Australian Government estimated that this would reduce the number of businesses captured under the large category by around a third (from approximately 6,600 to 2,200), and save SMEs more than $300 million over four years. The Treasurer stated:

> This is estimated to reduce the regulatory cost on these businesses by $81.3 million annually, as the average cost of preparing and auditing financial reports is approximately $36,950 per company, per year.[21]

Foreign investment framework

2.36 Australia's foreign investment framework is underpinned by the *Foreign Acquisitions and Takeovers Act 1975* and the Foreign Investment Policy. As part of Australia's foreign investment framework, the Australian Government requires certain proposed investments to be notified and a no objections notification be issued before the investment can be made.

2.37 The Foreign Investment Review Board (FIRB) advises the Australian Government on foreign investment policy and its administration, which includes examining proposals by foreign interests to undertake direct investment in Australia, and makes recommendations on whether those proposals are suitable for approval. The FIRB publishes a range of guidance and resources to assist investors comply with the rules under Australia's foreign investment framework.

2.38 The committee heard stakeholder concerns about potential negative impacts of certain FIRB guidance. The BCA claimed that uncertainty around foreign direct investment assessment criteria 'has resulted in late-in-the-day rejection of proposals.'[22]

2.39 The Clean Energy Council stated that the FIRB guidance for investments on agricultural land, announced on 1 February 2018, 'failed to fully comprehend the impediments these changes would have on the billions of dollars of investment into regional communities to fund clean and reliable energy.'[23]

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21 Treasurer, the Hon Josh Frydenberg MP, 'Small and medium businesses to save more than $300 million over four years', *Media release*, 16 November 2018, <http://jaf.ministers.treasury.gov.au/media-release/052-2018/>, accessed 12 December 2018.

22 BCA, *Submission 29*, p. 5.

23 Clean Energy Council, *Submission 5*, p. 2.

2.40 The Red Meat Advisory Council called for the Australian Government to lift the FIRB screening threshold for agricultural land from $15 million, as it acts as a deterrent to foreign investment in the Australian red meat value chain. It noted that the previous threshold for agricultural land had been $252 million, and argued that the current threshold is too low for a sector worth billions of dollars.[24]

2.41 In their submission, DFAT and Austrade advised that in the past two years, 'Australia has streamlined its foreign investment review process by simplifying aspects of the regulations and the fee framework.'[25]

2.42 However, some submitters argued that there is more work to be done in this area. For example, on 1 July 2017 the Foreign Acquisitions and Takeovers Regulation introduced the business exemption certificate for programs of acquisitions of interests in the assets of an Australian business or securities in an entity, including interests acquired through the business of underwriting. This allows foreign interests to gain pre-approval for their programs of investments or acquisitions if certain conditions are met.

2.43 The Australian Private Equity and Venture Capital Association Limited (AVCAL), while noting that this process is still new, suggested that improvements to the exemption certificate process were needed, and recommended that:

> …the application process is made as simple as possible given the current requirements to secure approval for each application from several government entities, including the Foreign Investment Review Board, the Australian Taxation Office, the Australian Competition and Consumer Commission – each with its own set of information and reporting requirements and questions – and a final approval from the Treasurer.[26]

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24 Red Meat Advisory Council (RMAC), *Submission 20*, p. 7.

25 DFAT and Austrade, *Submission 19*, p. 7.

26 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 11*, p. 3.

National regulation

National Offshore Petroleum Safety and Environmental Management Authority

2.44 The National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) is an example of bringing regulation in various jurisdictions under a single national regulator.

2.45 NOPSEMA is the national regulator for safety, integrity and environmental management for offshore petroleum activity in Commonwealth waters and state and territory waters where that state or territory has conferred its powers to the regulator.

2.46 When pipelines run from Commonwealth waters to an onshore facility, for example an LNG plant, they will be going through both Commonwealth and state waters. So without the conferral of powers to the national regulator, these businesses would have to duplicate approval processes to meet separate Commonwealth and state requirements. NOPSEMA noted that at times regulatory regimes had not been consistently applied in different jurisdictions.

2.47 NOPSEMA originally began as an offshore safety regulator in 2005, but extended its role in 2012 to environmental management and integrity. It noted that its formation:

> …standardised the approach taken to the regulation of environmental management of the industry in Commonwealth waters, reducing the potential for inconsistency and the resulting regulatory burden without reducing environmental standards—if anything, we would argue actually increasing those.[27]

2.48 NOPSEMA noted that since 2013-14 its environmental management authorisation process is endorsed in line with the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act), which means that when NOPSEMA grants environmental approvals under its processes, they are automatically deemed to be approved under the EPBC Act. Previously that could have involved getting a number of separate approvals, rather than one.

2.49 NOPSEMA advised that it currently has a conferral from Victoria. However, for various reasons, not all states and the Northern Territory

27 Mr Stuart Smith, CEO, National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA), *Committee Hansard*, 1 August 2018, p. 11.

have conferred their powers. This is generally attributed to the timing, the need to resolve certain issues, or in some cases reluctance by a state to hand their powers to the Commonwealth due to concerns about lost resources to support the regulatory function at the state level.

2.50 Despite still awaiting a number of conferrals, NOPSEMA argued that there is scope for the government to 'further streamline activities through allocating some functions such as sea dumping, offshore renewables regulation and offshore minerals'.[28] It also noted it had been collaborating in fields like marine biosecurity. It stated:

> These are areas that we already work with other government agencies in, and there's interest in some of those agencies in giving those responsibilities to us. We're happy to take on those functions, we have the expertise and the capacity to do it.
>
> Based on our experience with the streamlining under the EPBC Act, these measures are also likely to reduce costs in the order of hundreds of millions of dollars.[29]

2.51 It also advised that the Australian Petroleum Production and Exploration Association supports conferral and the streamlining of environmental approvals to NOPSEMA.

2.52 More broadly, the Mineral Council of Australia identified the need to streamline environment regulation processes, including in relation to the EPBC Act, as it can involve a significant time and cost impost on business.

2.53 NOPSEMA noted that it no longer receives government funding, with funding primarily through levies on industry on activities or facilities, and some from minor fees and charges.

2.54 It further commented that government estimates suggest that 'the streamlined arrangements for those environmental assessments have reduced costs to industry in the order of $120 million per year.'[30]

2.55 In expanding on the benefits of a national regulatory approach, NOPSEMA stated:

> The greatest financial benefit would be to the industry, but there are also potential savings to government. There is certainly no cost. If a state jurisdiction is fully cost recovered from industry now, then the effect is neutral for the government and there are

28 Mr Stuart Smith, CEO, NOPSEMA, *Committee Hansard*, 1 August 2018, p. 12.

29 Mr Stuart Smith, CEO, NOPSEMA, *Committee Hansard*, 1 August 2018, p. 12.

30 Mr Stuart Smith, CEO, NOPSEMA, *Committee Hansard*, 1 August 2018, p. 11.

> substantial savings to industry. If the state currently pays for its regulatory approvals, then that saving is there for the government and there is no additional cost to industry. So either way there are substantial savings to be made.[31]

Electrical safety

2.56 The Clean Energy Council identified electrical safety as an area that would benefit from national regulation, particularly given the important nature of the issue. Currently, electrical safety is largely the responsibility of the states or territories. The Clean Energy Council argued that the current arrangement:

> …creates some real challenges for the electricity sector, and particularly the clean energy sector, given the complexities of that and given the different levels of resources at states and territories, and often their different interpretations on particular issues. We think there is scope for some consolidation there, or, to put it differently, a transition to a single, national electricity safety institution.[32]

2.57 To illustrate the difficulties that these arrangements can cause, the Clean Energy Council mentioned the recent reclassification of DC isolators, which is a safety device installed as part of a solar system and is used to disconnect solar electricity at the source or from the control. The Clean Energy Council explained that the reclassification meant that the product was treated differently between each state and territory:

> What resulted was a level of chaos, because each of those bodies had either perhaps not anticipated that change—hadn't communicated that change out to industry. Indeed, it had interpreted that change differently. In some states, there was a change required instantly to the type of products being accredited and other states more recently gave a transition period et cetera.[33]

2.58 The Clean Energy Council also suggested that if a single Australian Electrical Safety Authority subsumed the roles of the eight state and territory safety regulators, this could deliver ‘significant savings to businesses, consumers and taxpayers’.[34]

31 Mr Stuart Smith, CEO, NOPSEMA, *Committee Hansard*, 1 August 2018, p. 13.

32 Mr Kane Thornton, CEO, Clean Energy Council, *Committee Hansard*, 7 August 2018, p. 21.

33 Mr Kane Thornton, CEO, Clean Energy Council, *Committee Hansard*, 7 August 2018, p. 21.

34 Clean Energy Council, *Submission 5*, p. 3.

2.59 In the Productivity Commission research report *Consumer Law Enforcement and Administration*, the Commission noted that the enforcement powers differed between the state and territory electrical safety regulators. The report noted as an example the confusion around the dangers of hoverboards, with Victoria issuing a public warning on 5 January 2016 and specific hoverboards were recalled, but the Australian Competition and Consumer Commission led interim ban was not introduced until March 2016.[35]

2.60 The Clean Energy Council noted the Productivity Commission's support for governments to work towards more national consistent laws. The Productivity Commission in that report recommended that 'state and territory governments should move to agree on nationally consistent laws on electrical goods safety.'[36] The Clean Energy Council also noted that since 2007 electrical safety regulators have supported more consistency across jurisdictions.

Cooperatives and mutual enterprises

2.61 The Business Council of Co-operatives and Mutuals (BCCM) noted that while the around 2,000 cooperative enterprises nationally may not seem like a large number, they play an important role in Australia's economy. In the 2016-17 financial year the total value added to the economy by the cooperative and mutual enterprises (CME) sector was $140 billion or 8.3 per cent of GDP. Australia Institute research suggests that a healthy cooperative sector has 'significant competition and accountability benefits for economic efficiency and community resilience.'[37]

2.62 The BCCM outlined that cooperative and mutual enterprises:

> …are paths for new entrants into the market by enabling new entrepreneurs to combine within a limited liability business model. They give small businesses leverage in a competitive market through aggregating power. In fact, some 174,000 small businesses can compete and prosper through cooperative organisations. They include travel agents, plumbers, real estate agents, hairdressers, farmers and architects, to name just a few.

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35 Productivity Commission, *Consumer Law Enforcement and Administration*, Research Report, March 2017, p. 75.

36 Productivity Commission, *Consumer Law Enforcement and Administration*, Research Report, March 2017, p. 20.

37 Business Council of Co-operatives and Mutuals (BCCM), *Submission 33*, p. 2.

> Cooperatives also address market failure as a business model to serve needs that are not met by investor owned firms.[38]

2.63 However, the BCCM submitted that current regulatory burdens are constraining the CME sector. The BCCM claimed that the current regulatory framework hinders the growth and development of cooperatives. In its submission it suggested that the regulation of cooperatives was problematic in the following ways:

- regulatory administration is paternalistic
- regulatory administration is not transparent
- regulatory administration exhibits a closed culture
- inconsistent regulatory administration between jurisdictions
- the Co-operatives National Law has still not been adopted by Queensland
- regulatory overlap between state and federal jurisdictions
- lack of coordination between state and federal corporate regulators, and
- process for registering a name for a co-operative.[39]

2.64 The Co-operatives National Law (CNL) is a uniform scheme of legislation to provide consistent state and territory legislation. It aimed to remove the competitive disadvantages for cooperatives in comparison to entities under the *Corporations Act 2001*.

2.65 New South Wales and Victoria (covering over 80 per cent of the cooperative sector in Australia) commenced their CNL legislation in 2014. It was then adopted in the following years by other jurisdictions, with the exception of Queensland.

2.66 The BCCM noted that Queensland had 'withdrawn from the inter-government agreement and there is presently no commitment by the state to adopt the CNL.'[40]

2.67 The BCCM advised the committee that Queensland not adopting the CNL poses practical challenges for cooperatives since:

> Co-operatives registered under the CNL must register as a foreign co-operative to carry on business in Queensland, and

38 Ms Melina Morrison, CEO, BCCM, *Committee Hansard*, 31 July 2018, p. 29.

39 BCCM, *Submission 33*, pp. 3-6.

40 BCCM, *Submission 33*, p. 5.

> co-operatives registered in Queensland do not have mutual recognition to carry on business in other States and Territories.[41]

2.68 While the BCCM described the CNL as 'robust and excellent', it argued that what 'we need is a regulatory regime that exists at federal level to enable the supervision and the regulation of that law', because cooperatives are not 'even-handedly dealt with as a business model because of the disparities in the treatment at a state and territory level.'[42]

2.69 Cooperatives are regulated by a combination of Commonwealth and state or territory laws, and mutual enterprises come under the Corporations Act.

2.70 The BCCM submitted that the process for forming a cooperative can be more complex than for standard companies. It stated that 'depending on which state or territory that process is initiated, the process can be either a simple tick-a-box system or it can be quite interrogative and paternalistic.'[43]

2.71 In relation to inconsistencies between jurisdictions, the BCCM noted, for example, that applications for registration are subject to different policies and standards. It claimed that a particular proposed draft constitution could be approved in one jurisdiction but not in another.[44]

2.72 The BCCM noted that company registration has no equivalent approval processes and that formation is quick and indifferent to the purpose or viability of the entity. However, it suggested in the case of cooperatives a paternalistic approach has been evident where 'regulators in one jurisdiction have rejected formation documents based on a view that the entity may not be financially viable.'[45]

2.73 The fact that cooperatives are registered at the state level was raised as a particular point of constraint for the cooperatives sector.

2.74 It was also noted that there is no single national register of cooperatives. This means that it is difficult to get an accurate picture of the size and composition of the cooperatives sector in Australia. Also, anyone needing to access this information but are unsure of which jurisdiction the business originates will have to search each state or territory register separately.

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41 BCCM, *Submission 33*, p. 5.

42 Ms Melina Morrison, CEO, BCCM, *Committee Hansard*, 31 July 2018, pp. 31-32.

43 Ms Robyn Donnelly, Consultant, BCCM, *Committee Hansard*, 31 July 2018, p. 31.

44 BCCM, *Submission 33*, p. 5.

45 BCCM, *Submission 33*, pp. 3-4.

2.75 The BCCM noted that where the cooperative regulator process has been made more user-friendly, this has led to more activity. It provided the example of the Co-op Builder tool, which it developed for the Farming Together Program. It noted that the tool assisted users to prepare documents for forming a cooperative, leading to increased registrations.

2.76 The BCCM supported a single national regulator for cooperatives that would come under Commonwealth responsibility. It stated that this approach:

> …would provide uniformity for regulation and administration and resolve any dual regulatory issues. It would also provide a single national and searchable public register to support policy and research into the size and value of the sector.[46]

2.77 The BCCM asserted that moving to national regulation would not diminish the characteristics of the cooperative business model. Further, the BCCM proposed that the Australian Securities and Investments Commission, as a key regulator in Australian financial markets, is 'best placed to administer disclosure requirements for new hybrid securities (Cooperative Capital Units) offered by cooperatives to boost business investment.'[47]

Road transport

2.78 An effective freight system is crucial for Australia's business viability and attracting investment. As a key stakeholder, the Australian Trucking Association (ATA) identified Heavy Vehicle National Law (HVNL) and the National Heavy Vehicle Regulator (NHVR) as areas in need of regulatory reform.

2.79 The HVNL applies in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria. Each of these states or territories adopted or duplicated the HVNL, with some exceptions. While the HVNL has not commenced in Western Australia or the Northern Territory, the law does apply to vehicles in this state and territory when they cross into one of the states of territories where the HVNL applies.

2.80 In its role as a national coordinator, the NHVR administers the set of HVNL laws that apply to heavy vehicles over 4.5 tonnes gross vehicle mass. The ATA noted that the goal for establishing the NHVR was to

46 BCCM, *Submission 33*, p. 7.

47 BCCM, *Submission 33*, p. 8.

realise $8.4 billion in potential economic gains by improving arrangements to restricted access and oversize and overmass vehicles. However, the ATA maintained that these productivity gains have not been realised. It outlined that:

- it can take more than 80 days to get a permit to transport OSOM steel products on the Transurban tollways in Melbourne, because the Transurban and NHVR processes do not work in parallel
- a company seeking to move OSOM mining equipment from the Pilbara to Weipa waited more than 100 days for a permit to move the equipment by road through Queensland. In the end, the company transported the equipment to Darwin by road and then barged it to Weipa
- the QTA has estimated that there are an estimated 4.5 million days lost in waiting for approval to move freight. This calculation assumes 20,000 permits issued by each jurisdiction and the NHVR, and then rounded down in light of the smaller jurisdictions and multiplied by the 30-day approval process.[48]

2.81 The ATA called for an independent and wide-ranging review of the HVNL.

2.82 The ATA identified the Australian Code for the Transport of Dangerous Goods by Road and Rail (the ADG Code) as a source of inconsistency between the federal and state or territory levels. Each state and territory separately implements the ADG Code and associated regulations, and a number of different agencies are responsible for enforcing it.

2.83 The next review of the ADG Code is scheduled for 2020. The ATA and the Australian Logistics Council have suggested that the reviewers consider whether the ADG should be adopted into Australian law using the 'applied legislation' model—the same model used for the HVNL—and whether a common operations manual could be adopted by all jurisdictions to enable more uniform interpretation.[49]

48 Australian Trucking Association, *Submission 7*, p. 6.
49 Australian Trucking Association, *Submission 7*, p. 6.

Retail sector matters

2.84 The Australian Retailers Association (ARA) identified local government bureaucracy as 'creating significant delays and compliance burdens for business.'[50] It stated:

> At present, there are numerous examples where retailers and other businesses must engage with multiple regulators, with differing timeframes and requirements, sometimes on a single issue. Some particular areas for retailers across the country include:
>
> - Entirely inconsistent trading hours regulations across and within various jurisdictions.
> - Transportation restrictions differing between States and Territories creating holdups to supply chains and the service economy.
> - Continued inconsistencies in VET between jurisdictions and a lack of accountability preventing job creation and business investment.
> - Requirements to obtain numerous permits and licenses to operate businesses, which differ widely in every local government area.[51]

2.85 It also identified excessive planning and zoning regulation as 'curtailing opportunity and imposing costs on the overall economy.'[52] The ARA stated:

> Onerous development and planning requirements deter business establishment and expansion and constrains prosperity in our regions. While tenancy costs are driving retailers out of the marketplace, the mire of planning and zoning regulations act as a further barrier to viable alternatives.[53]

2.86 The ARA proposed that the Council of Australian Governments (COAG) should be responsible for facilitating and driving a national approach on local planning and zoning regulation.

2.87 However, the ARA did note that recent state government budgets have implemented real change in this area, and that 'at least one state

50 Australian Retailers Association (ARA), *Submission 15*, p. 4.
51 ARA, *Submission 15*, pp. 4-5.
52 ARA, *Submission 15*, p. 5.
53 ARA, *Submission 15*, p. 5.

government has ably dealt with planning and regulation, with others hopefully following suit.'[54]

2.88 The retail sector supported the greater use of technology to improve the effectiveness of local government approval processes:

> With improving technology, local government could undertake large parts of the approval processes electronically using methods such as process application interfaces. As an application is processed, applicants could instantly view progress and address issues immediately. This would limit the appeals process, improve the ability of council staff to understand the commercial implications of any delays and gain an understanding of the significance of delays for developers and retail tenants.[55]

Providing turnover figures

2.89 The 'turnover rent' provisions by shopping centre landlords, and some large-format retailers, were identified as a particular area of concern for retailers. This involves a requirement in the tenancy contract that retailers provide the landlord with monthly turnover figures.

2.90 The ARA argued that this is one of the big problems with the shopping centre industry, and that the outcome of this was that retailers with reasonable turnovers were placed at a disadvantage in future rent pricing. It explained that:

> What happens when you hand in turnover figures is that a retailer goes into the store; he has a good rent at the beginning; he gets to the five- or seven-year term of the lease; the landlord sees his figures and knows what he's doing and just puts the thumbscrews on. They push it to the point where they're making it just viable to be in business. They understand your business as well as you do. So if you're a vertical player they know what your margins are, so they just know how far to push it. If you're a smaller independent business and you're buying from wholesalers, they know what that margin is. They just know where to push it to put you on that borderline. Then when the economy turns down, unfortunately the landlords don't come to you and say, 'Your turnover's gone down so we're going to reduce the rent.'[56]

54 ARA, *Submission 15*, p. 6.

55 ARA, *Submission 15*, p. 6.

56 Mr Russell Zimmerman, Executive Director, ARA, *Committee Hansard*, 1 August 2018, p. 19.

2.91 The ARA noted that the retail sector strongly supported removing the requirement in contracts for shopping centre tenants to provide turnover figures to landlords. However, if the requirement is to continue, it proposed that the figures be provided to a third party.

Parallel importation of books restrictions

2.92 The committee also heard that the opening up of global markets has revealed some 'legacy regulations' that are impacting on the retail sector.

2.93 The *Copyright Act 1986* prohibits booksellers importing books for resale where there is an Australian publisher who has acquired exclusive rights and publishes the title within 30 days of the original overseas publication. Booksellers can import overseas editions after that, but only if the book is unavailable from the local publisher for longer than 90 days.

2.94 The ARA argued that the practical effect of the parallel import restrictions on books is that:

> Physical bookstores are constrained by outdated agreements with only one method of supply—the Australian based publisher. These laws don't protect local authors, because readers source from cheaper overseas options. These laws exist to support multinational publishing conglomerates. Why can you buy, for example, a Stephen King novel online from overseas cheaply but at your local bookstore you have to pay a premium for the publisher to sell it here?[57]

2.95 The committee noted that parallel import restrictions more broadly was identified by the Productivity Commission in the 2015 *Competition Policy Review* (the Harper Review) as an area in need of immediate reform.

2.96 The Harper Review recommended removing restrictions on parallel imports unless it could be shown that 'the benefits of the restrictions to the community as a whole outweigh the costs', and that 'the objectives of the restrictions can only be achieved by restricting competition.'[58]

2.97 The recommendation included removing parallel import restrictions on books, subject to transitional arrangements to be recommended by the Productivity Commission.

57 Mr Russell Zimmerman, Executive Director, ARA, *Committee Hansard*, 1 August 2018, p. 15.

58 Productivity Commission, *Competition Policy Review: Final Report*, March 2015, p. 48, Recommendation 13.

2.98 In its response to the Harper Review, the Australian Government signalled its support for removing parallel import restrictions on books, subject to a review of intellectual property arrangements in Australia and stakeholder consultation.

2.99 In its subsequent 2016 final report on its inquiry into Australia's Intellectual Property Arrangements, the Productivity Commission again supported removing parallel import restrictions for books and recommended that the Australian Government should proceed with repealing the restrictions, to take effect no later than the end of 2017. [59]

2.100 In its response in August 2017, the Australian Government supported the recommendation in principle and indicated it would consult with the book industry to develop a reform pathway that is in the public interest.

2.101 The ARA told the committee that 'it is past-time for the Government to act on parallel importation of books'.[60]

Clothing label standards

2.102 The way in which Australian standards for clothing labels differs from international standards was identified as a regulation that is unnecessarily impeding the retail sector.

2.103 The ARA noted that there are three regulations in Australia relating to clothing labelling, and that there are also symbols used in Australia that do not comply with international standards. It explained that:

> Australia requires that clothes are labelled at the collar, as opposed to international standards which are on the side of the clothing and apparel. This may not sound significant until you consider all products must be specially changed for the Australian market. For Australian businesses operating offshore, they must manufacture and often change designs so they can sell product to international buyers.[61]

59 Productivity Commission, *Intellectual Property Arrangements*, Inquiry Report, No. 78, 23 September 2016, pp. 13 and 32.

60 ARA, *Submission 15*, p. 11.

61 Mr Russell Zimmerman, Executive Director, ARA, *Committee Hansard*, 1 August 2018, p. 15.

2.104 Clothing manufacturer Esprit was provided as an example of a company impacted by these inconsistences between Australian and international standards for clothing labels. The ARA stated that Esprit had:

> …stopped every garment that was coming into Australia in Singapore, unbagged it, took it out, sewed the label on where it had to go and rebagged it. From memory—they did tell me at the time—the cost was $1.50 per garment to be relabelled in Singapore. It was a horrific cost—and you multiply that by the number of garments.[62]

2.105 The ARA advised that it has been consulting with industry on this issue and is planning to make an application to Standards Australia to change this old standard.

Access to skilled and qualified labour

2.106 The inability of some businesses to access suitably skilled and qualified Australian workers in relevant fields has also been identified as an impediment to business investment in Australia.

2.107 For example, the *Intergovernmental Review of Business Investment* (the Review) noted feedback that despite being home to five universities and a range of training facilities, 'Canberra businesses continue to identify skills shortages as a key impediment to business investment in the region.'[63]

Visa arrangements for skilled labour

2.108 AVCAL described Australia as 'a net importer of not only capital but talent.'[64] It highlighted the importance of skilled migration in generating economic growth, and the need for Australian policies to continue to have policies to support business entrepreneurs, especially in an environment with 'rising global mobility of workers and heightened competition for talent.'[65] ACVAL stated that:

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62 Mr Russell Zimmerman, Executive Director, ARA, *Committee Hansard*, 1 August 2018, pp. 16-17.

63 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 37.

64 AVCAL, *Submission 11*, p. 8.

65 AVCAL, *Submission 11*, p. 8.

> Recent changes to the 457 visa program for skilled migrants reduced the flow of talent to Australian companies. Within the technology sector, for example, the number of these types of visas granted for developers and programmers dropped 31%, along with a 50% drop for analyst programmers and a 10% drop for software engineers, from July to December 2017 compared to the same time in the year prior. In this context, Australia can do more to attract skilled migrants into key economic sectors that are facing skills shortage challenges.[66]

2.109 The Temporary Skill Shortage (TSS) visa replaced the Temporary Work (Skilled) visa (subclass 457) on 18 March 2018. The TSS visa (subclass 482) enables employers to address labour shortages by bringing in skilled workers where they cannot source appropriately skilled Australian employees.

2.110 One of the key reforms with the TSS visa includes mandatory labour market testing (LMT), if an exemption does not apply. LMT requires business sponsors to prove that they have tested the Australian labour market for available employees with the appropriate skills, before they can seek to bring in staff under this skilled worker visa provision.

2.111 KPMG maintained that the TSS visa steam gives insufficient consideration to multinational businesses that often rely on intra-group transfers and internal succession planning to support their business operations in different countries. KPMG supported making it easier for multinational employers to bring talented executives to Australia. It recommended that:

> …all intra-group transfers should be exempt from LMT, and so should executive hires (regardless of country of origin) whose minimum guaranteed earnings are at least $180,000 per annum.
>
> The executive exemption should also apply for foreign companies who are looking to set up business in Australia for the first time, whether in their own right or as a joint venture partner.[67]

2.112 CSL and Cochlear similarly expressed concern about the 'lack of a clear and consistent pathway for intra-company temporary transfers',[68] and stated that:

> Operating in sectors dominated by European and Northern American players, CSL and Cochlear need to try and construct our

66 AVCAL, *Submission 11*, p. 8.

67 KPMG, *Submission 21*, p. 14.

68 CSL and Cochlear, *Submission 13*, p. 7.

> Australian workforces from a patchwork of visas, shoehorning our people into occupation lists that are inflexible and outmoded. Meanwhile our competitors in the US and Europe can rely on their internal markets or intra-company transfer.
>
> A strategic and comprehensive reform of Australia's migration regime is necessary to support innovative Australian companies with a global export focus. There are several concepts which could be adopted including the US and UK intra-company transfer visas and the concept of a two tier visa system split between domestic jobs and those exposed to export markets.[69]

2.113 In their joint submission, CSL and Cochlear provided the abolition of the 457 visas as an example of where regulatory changes have undermined business confidence in Australia.[70]

2.114 CSL and Cochlear also noted the Australian Government's Global Talent Scheme (GTS) pilot aimed at providing an avenue for businesses to sponsor highly skilled workers who are not eligible under the standard TSS visa. However, they commented that 'the GTS has a very high earning requirement which does not reflect that highly skilled employees may not always be highly paid even where there is a genuine shortage of those skills in the market.'[71]

2.115 The committee also heard that the red meat industry is a sector struggling to attract semi-skilled labour in regional Australia. As a consequence it looks to outside Australia for much of its workforce, but is constrained by regulations around international labour.[72]

Workplace relations

2.116 The *Fair Work Act 2009* established Australia's national workplace relations system, the Fair Work system. It covers the majority of workplaces in Australia. In the Australian Capital Territory and the Northern Territory all employees and employers are covered under the national system. However, in some states, the state system applies to certain employees, for example state public sector and local government employees.

69 CSL and Cochlear, *Submission 13*, p. 8.
70 CSL and Cochlear, *Submission 13*, p. 6.
71 CSL and Cochlear, *Submission 13*, p. 7.
72 RMAC, *Submission 20*, p. 6.

A complex Fair Work system

2.117 Business also faces the challenge of navigating a complex workplace relations system. The committee heard that SMEs, in particular, struggle with Australia's workplace relations system, and that the system's complexity can act as a disincentive for businesses to grow.

2.118 The ASBFEO noted that the second most important milestone for a growing business is employing staff. However, it outlined that:

> …of the 2.1 million small to medium businesses that exist in Australia about a million of them are non-employing. That doesn't mean they don't have partners and others in their businesses; but they don't employ anybody. When we asked them, and we have done that, why that is the case, they tell us that the complexity of the system scares them off. They hear horror stories about what happens in unfair dismissal cases, with all sorts of issues. You've got to remember that small to medium businesses…don't have HR areas in their businesses. They don't have experts in the Fair Work Act; they don't have in-house headquarters; they can't afford expenditure outside their business. They're putting everything into their business to grow their business. So with a system which has 960 sections—we're talking about the Fair Work Act now—a quarter of a million words, before we even think about the 122 different awards, you can understand why many small business owners say, 'This is just too hard. So what we'll do is we won't grow.[73]

2.119 The BCA submitted that 'Australia's workplace relations framework continues to place a drag on flexibility and productivity improvement, including for greenfield developments.'[74]

2.120 ASBFEO commented that 'the bottleneck is lack of good, reliable and usable information on what they actually have to do' to employ that first person and then more.[75] It stated:

> We have suggested having an IT system that allows you to enter, 'I am a small pharmacy; I employ this many people; what are the requirements for me, what do I have to worry about, what's the award?' Remember that in lots of businesses multiple awards are involved. …So we need clarity around what actually needs to

73 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, pp. 1-2.

74 BCA, *Submission 29*, p. 6.

75 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 3.

> happen, and the advice being backed up. If you take the advice that comes off the system in good faith, then there's a safe harbour provision. It still means that if you underpay someone you need to pay them back; you just won't be prosecuted.[76]

2.121 The committee heard that unfair dismissal is another problem area. The ASBFEO suggested that while small businesses want to do the right thing and comply with their obligations, they can get caught in procedural matters. The reality of pay arrangements and managing their obligations for a small business tends to be vastly different to large firms. The ASBFEO stated:

> The person who does the wages is usually the owner or the owner's partner, at 11 o'clock at night, after they've got the kids to bed, finally, after they've worked a 12-hour day. I don't want to make this more dramatic, but that's actually the reality here. That's when people do their BAS, at 11 o'clock at night. That's when they do the wages. They do it themselves. We have to make it so that those people can do the right thing easily and the system supports them in that.[77]

2.122 The ARA submitted that the government should address issues with Enterprise Bargaining Agreements, by simplifying the bargaining process generally and, in particular, reducing the complexity of the Better Off Overall Test.[78]

2.123 The Institute of Public Affairs identified the Australian workplace relations system as a significant obstacle to business investment and argued that 'Australia is one of the hardest places for businesses to recruit and keep talented workers.'[79] It recommended reinstating 'the partial exemption from unfair dismissal laws from only small businesses, to small and medium sized business, with up to 100 employees.'[80]

2.124 MTA Queensland called for unfair dismissal arrangements to be reviewed. It also expressed its support for the concept of providing a lower maximum compensation figure for 'proven unfair dismissal' matters for small businesses.[81]

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76 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 3.

77 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 3.

78 ARA, *Submission 15*, p. 15.

79 Mr Daniel Wild, Research Fellow, Institute of Public Affairs, *Committee Hansard*, 1 August 2018, p. 43.

80 Institute of Public Affairs, *Submission 34*, p. 13.

81 MTA Queensland, *Submission 12*, p. 2.

2.125 Fair Work Commission (FWC) research indicated that those involved found the process to be 'daunting, scary, costly and time consuming.'[82] The ASBFEO suggested that the relevant policy derived from thinking about what a large company would do, and did not readily apply to the reality of small business operations. It stated:

> …we've got a system that's trying to catch the people that are doing the wrong thing, but it's a bit like the tax system, where, if you have processes that are designed to capture the very small percentage that are doing the wrong thing, you put the cost and impediment of this across the whole lot of businesses. So it's just having a think about what's suitable for the small businesses in Australia rather than large businesses.[83]

2.126 The ASBFEO noted that its *Workplace Relations – simplification for small business* paper identified a number of changes which would reduce complexity for Australian businesses. The key focus areas are:

- simplifying Award compliance for smaller enterprises
- streamlining FWC processes
- ensuring FWC outcomes are predictable, transparent and proportional
- improving communication and education to small business
- small business focus, and
- legislative changes.

2.127 The ASBFEO noted that in July 2018, the FWC launched an initiative to improve access and reduce complexity for users of FWC services.

2.128 DIIS acknowledged that its consultation indicated that 'employing someone was an area of confusion for businesses.'[84] It noted that the COAG Industry and Skills Council had agreed that investigating the barriers that businesses face in employing someone was a national business simplification priority.

2.129 DIIS noted that it had collaborated with the Australian Tax Office, the Digital Transformation Agency, and the then Department of Employment (now Jobs and Small Business), on a project to 'better understand how businesses make (or do not make) the decision to employ their first

82 Ms Anne Scott, Principal Adviser, ASBFEO, *Committee Hansard*, 7 August 2018, p. 3.

83 Ms Anne Scott, Principal Adviser, ASBFEO, *Committee Hansard*, 7 August 2018, p. 3.

84 DIIS, *Submission 24*, p. 6.

person.'[85] It advised that the project made recommendations on how governments might encourage small business employment, and that the Australian Government is now looking at progressing some of these recommendations with state and territories.

Conclusions and recommendations

Business engagement with governments

2.130 Regulation plays an important role in Australian society and the economy to address and manage potential risks that if left to market forces could otherwise go unchecked to the detriment of the community. However, where these regulations are unnecessary or unduly complex or burdensome on business, governments at all levels should work together to streamline these whenever possible.

2.131 In particular, the committee recognised that, as is the case with individuals engaging with government services, when businesses engage with government they expect it to be user-friendly and efficient. They would prefer to engage with 'government' as a single entity and not have to undertake duplicate processes supplying the same or similar information to different levels of government, which adds to the time and complexity of the interactions.

2.132 The committee notes the work governments are already undertaking to reduce the regulatory burden on business and streamlining engagement with government. In particular, through the National Business Simplification Initiative (NBSI) and the related Business Registration Service (BRS).

2.133 The committee also notes that small and medium enterprises (SMEs) have been a focus area, with activities like the Easy to do business project pilot in the local government area of Parramatta. This involved reducing the number of forms for opening a hospitality business in Parramatta. The BRS cooperated with Service NSW, and a system was designed to distribute information to the relevant local, state and Commonwealth agencies involved in creating and licensing the business.

2.134 One particularly notable aspect of the Parramatta pilot was that it did not involve changing any of the regulatory requirements at the different levels

85 DIIS, *Submission 24*, p. 6.

of government. What it demonstrates is that by utilising digital tools and with a commitment from governments to reduce the regulatory burden and enhance the engagement experience for business, governments at all levels can help overcome the cumulative regulatory burden that currently impedes businesses investing and growing.

Recommendation 1

2.135 **The committee recommends that the Australian Government, in cooperation with state and territory and local governments, continue to identify areas and industry sectors for streamlining business engagement with governments through projects such as the National Business Simplification Initiative, and implement reforms where there is scope for reducing the layers of regulatory burden for starting and operating businesses.**

National regulation

2.136 The committee notes that the National Offshore Petroleum Safety and Environmental Management Authority is an example of where cross-jurisdictional regulation can be streamlined into a national regulatory body to the benefit of industry and government.

2.137 Evidence to the committee indicated that there are other areas that could benefit from national regulation. In particular, the electrical safety and the cooperatives and mutual enterprises sector.

2.138 Currently, electrical safety is largely the responsibility of the states or territories, which the committee heard has led to some inconsistency of interpretation and enforcement of certain regulations.

2.139 Given the importance of ensuring appropriate levels of electrical safety are maintained across Australia, the committee agrees that this is an area that lends itself to national regulation.

Recommendation 2

2.140 **The committee recommends that through the Council of Australian Governments, the Australian Government and state and territory governments develop and adopt a set of nationally consistent laws on electrical safety.**

2.141 The Co-operatives National Law is providing some much needed consistency between jurisdictions in relation to cooperative enterprises, excluding Queensland, which has not adopted the uniform law.

2.142 However, the committee heard that current regulatory burdens are constraining the cooperative and mutual enterprises sector. In particular, the requirement that cooperatives be registered at the state or territory level was found to be problematic, with standards and levels of complexity differing between jurisdictions.

2.143 The committee notes the Business Council of Co-operatives and Mutuals' (BCCM) evidence that between jurisdictions registration approaches could range from a simple tick-a-box system to a more complicated process.

2.144 In addition to these inconsistencies between jurisdictions, having separate state and territory registration lists makes it difficult to get an accurate picture of the size and composition of cooperatives in Australia, and to access information about particular cooperative enterprises.

2.145 The committee sees merit in BCCM's proposal for a single national regulator that will provide uniformity for regulation and administration and resolve any dual regulatory issues.

Recommendation 3

2.146 **The committee recommends that the Australian Government, in consultation with states and territories, consider establishing a single national regulator for cooperative enterprises.**

Retail sector matters

2.147 The committee notes concerns from the retail sector about regulations affecting the sector, in particular about:

- planning and zoning arrangements at the local government level hampering new retail developments
- provisions in tenancy agreements requiring retailers to provide monthly turnover figures
- restrictions on the parallel importation of books, and
- inconsistencies between Australian and international standards for clothing labels.

2.148 The Productivity Commission has examined the issue of the parallel importation restrictions on a number of occasions. Specifically in relation to the parallel importation of books restrictions under the *Corporations Act 2001*, it has recommended removing the restriction.

2.149 The committee notes that the Australian Government has indicated in principle support for removing the parallel importation restrictions for books, subject to consultation with industry. However, the Australian Retailers Association noted that the reforms have not yet occurred.

Recommendation 4

2.150 **The committee recommends that the Australian Government publish an update on the progress of industry consultations and work on reforms to the restrictions on the parallel importation of books, including any timeline on implementation.**

2.151 On the matter of differences between Australian and international standards on clothing labels, namely the placement of tags and symbols used, the committee agrees that business efficiencies could be gained by bringing Australian Standards in line with international standards.

2.152 The issue of clothing labelling is one on which an updating of Australian Standards could provide practical benefit to Australian businesses.

Recommendation 5

2.153 **The committee recommends that the Australian Standards on clothing labels be updated to bring them in line with international standards.**

Australia's workplace relations system

2.154 Australia's Fair Work system provides important protections for employees, including minimum employment standards that must be met. While not seeking to compromise these standards to the detriment of Australian workers, there is scope to streamline regulation and compliance to make it easier for businesses to understand and comply with the Fair Work system.

2.155 The committee notes that in particular SMEs lack the scale and resources to navigate Australia's complex Fair Work system. It agreed that governments should do more to foster an environment that encourages these businesses to take on that first employee and then more employees in order to grow their businesses.

Recommendation 6

2.156 **The committee recommends that the Australian Government, when identifying areas for streamlining business engagement with governments as set out in Recommendation 1, should include small business engagement with governments on workplace relations matters.**

When considering options, the governments should have regard to the Australian Small Business and Family Enterprise Ombudsman's proposals in the *Workplace Relations – simplification for small business* paper and the recommendations from the government joint project looking at how governments might encourage small business employment.

3

Innovation policies

3.1 Governments have an important role to play in ensuring that its policies support growth and innovation. To stay competitive, businesses must innovate to achieve productivity gains and better meet the needs of customers.

3.2 Australia is a world leader in many areas of research, but performs poorly in translating research, through product and enterprise development, into investment in Australian businesses.

3.3 The Australian Private Equity and Venture Capital Association Limited (AVCAL) stressed that cohesive and well-thought out innovation policy is crucial for 'boosting investment into our most productive sectors, fostering competitiveness, creating jobs and helping build and future-proof the economy.'[1]

3.4 Similarly, the Department of Industry, Innovation and Science (DIIS) acknowledged that governments have an important role to play in supporting innovation. It stated that these would include, for example, 'policies to encourage: investment in research and commercialisation; industry-research collaboration and skills and mentoring.'[2]

3.5 Australia is transitioning away from resources to innovation as a key drive of economic growth. AVCAL emphasised that in this environment, business investment in non-mining sectors is becoming an increasingly important ingredient in that growth, and that 'it is essential to ensure there is adequate and timely access to capital'.[3]

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1 Australian Private Equity and Venture Capital Association Limited (AVCAL), *Submission 11*, p. 7.

2 Department of Industry, Innovation and Science (DIIS), *Submission 24*, p. 10.

3 AVCAL, *Submission 11*, p. 3.

3.6 While AVCAL observed that in the past Australia has fallen behind other economies across a number of innovation measures, it noted that the Australian Government's National Innovation and Science Agenda (NISA) has been crucial in getting Australia 'back on track to compete with the rest of the developed world'.[4]

National Innovation and Science Agenda

3.7 In December 2015, the Australian Government announced the NISA and committed $1.1 billion over four years to measures focused on science, research and innovation as long-term drivers of economic prosperity, jobs and growth.

3.8 Australia does not have a strong track record in efficiently commercialising innovative ideas. The Global Innovation Index for 2018 ranked Australia at 21, up from 23 in the previous year. In the 2008-09 report Australia was ranked at 22.

3.9 The NISA complements the Australian Government's broader $10 billion per annum investment in science, research and innovation systems 'to support businesses and researchers to innovate and succeed.'[5]

Table 3.1 List of NISA initiatives

Advancing quantum computing technology	Increasing access to company losses
Assessing the engagement and impact of university research	Incubator Support initiative
Attracting talent through reforms to Employee Share Schemes	Innovation and Science Australia
Biomedical Translation Fund to commercialise promising discoveries	Innovation Connections: connecting industry to innovation infrastructure
Business Research and Innovation Initiative	Innovation in agriculture and regional areas
Changes to Venture Capital Limited Partnerships	Inspiring all Australians in science, technology, engineering and mathematics
CSIRO Innovation Fund to commercialise early stage innovations	Inspiring Australians - Science Engagement Programme
CSIRO ON accelerator programme	Intangible asset depreciation
Cyber Security Growth Centre	Linkage Projects scheme: faster industry-research collaboration grants
Data sharing for innovation	Maintaining world class research infrastructure through the National Collaborative Research Infrastructure Strategy (NCRIS), the Australian Synchrotron and the Square Kilometre Array

4 AVCAL, *Submission 11*, p. 7.

5 DIIS, *Submission 24*, p. 12.

Data61: Australia's digital and data innovation group	Making it easier to access crowd-sourced equity funding
Digital Marketplace	New research funding arrangements for universities
Embracing the digital age	Opportunities for women in science, technology, engineering and maths
Global Innovation Strategy	Supporting innovation through visas
Improving insolvency laws to encourage innovation	Tax incentives for investors

Source DIIS, Boosting innovation and science, <https://www.industry.gov.au/strategies-for-the-future/boosting-innovation-and-science>, accessed 23 November 2018.

3.10 DIIS noted that the NISA targets impediments to business investment across all sectors of the economy through facilitating 'higher business investment by co-investing to commercialise promising ideas through initiatives like the Entrepreneurs Programme's $23 million Incubator Support measure and the Accelerating Commercialisation measure.'[6]

3.11 The Entrepreneurs' Programme uses a public-private partnership model. It offers support to businesses in the areas of: accelerating commercialisation; business management; incubator support; and innovation connections. DIIS described the Entrepreneurs' Programme as:

> …much more targeted towards innovative companies or firms that really need to become more innovative if they're going to keep on surviving and growing, and be successful in a much more globally competitive marketplace. It makes best use of utilising independent, private, expert advisers, who can be that first point of contact with the business—so it's not with government officers.[7]

3.12 By October 2018, 335 grants totalling more than $166 million had been provided to businesses to commercialise innovative technologies. The grants comprise matched funding of up to $1 million to cover eligible commercialisation costs and help companies take their products to market.[8]

6 DIIS, *Submission 24*, p. 12.

7 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 10.

8 The Hon Karen Andrews MP, Minister for Industry, Science and Technology, 'Funding takes clever products to market', *Media release*, 10 October 2018, <https://www.minister.industry.gov.au/ministers/karenandrews/media-releases/funding-takes-clever-products-market>, accessed 20 November 2018.

3.13 AVCAL told the committee that the NISA has been a 'very important catalyst' for Australia's innovation economy, as it provided a clear signal from the government that investing in innovation is important.[9]

3.14 However, it contended that this has just 'caught us up from where we were to where we need to be',[10] and so the challenge still remains for Australia to maintain the momentum and progress in this area. AVCAL identified a need for a NISA mark 2.0, and stated:

> NISA is not a task that we can tick the box on now and move on to other things. This must remain a continual area of focus…[11]

Encouraging innovation

Research and development

3.15 DIIS commented that business research and development (R&D) activities are a key driver of productivity and economic growth. It stated that:

> There is overwhelming evidence that firms that do undertake more innovative activity—for example, they invest in R&D or the right skills and talent—are better placed to be competitive and to export and compete in global markets and global supply chains.[12]

3.16 However, DIIS observed that 'left to themselves, businesses tend to underinvest in R&D.'[13] DIIS attributed this inclination for businesses to underinvest in R&D to:

- an inability to appropriate all the benefits of their R&D (as benefits tend to 'spill over' to the rest of society);
- difficulties in obtaining financing due to the inherent uncertainty of R&D; and
- tax treatment of losses discouraging risk-taking investments.[14]

3.17 CSL and Cochlear observed that Australia's predominantly government funded research sector, primarily universities and the Commonwealth Scientific and Industrial Research Organisation (CSIRO), are highly

9 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 17.
10 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 20.
11 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 20.
12 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 10.
13 DIIS, *Submission 24*, p. 13.
14 DIIS, *Submission 24*, p. 13.

productive and globally recognised for high quality research. However, they contended that overall Australian investment in innovation and R&D by government and business needs to increase. They submitted that:

> Australia's gross expenditure on R&D (GERD) is currently at about 1.8% while top performing nations are around 3.69%. Business expenditure on R&D (BERD) is particularly low (1.01% as at 2015). This needs to dramatically improve if we are to be real competitors in the innovation race.[15]

3.18 In 2017, CSL and Cochlear were two of only four Australian companies on the list of top 1,000 global R&D spenders, both with R&D intensity of over 10 per cent. They are the nation's two largest innovation-focused advanced manufacturing companies and compete globally from an Australian base.

3.19 In addition to its substantial R&D and manufacturing base in Melbourne, CSL also noted that it has very substantial R&D and manufacturing operations in the United States, Europe and the United Kingdom, with more than 20,000 staff in 32 countries.

3.20 CSL noted that the competition among peer nations for advanced R&D and manufacturing is intense. They stressed the importance of the Australian Government continuing to support business to conduct R&D. These companies stated that they:

> …regularly receive offers of various incentives to perform R&D offshore and we suggest that proactive policies to retain and incentivise the sort of real, intensive, R&D performed by these companies should be core to Australia's industry policy.[16]

3.21 CSL and Cochlear cautioned that when businesses move their R&D offshore the consequences are that 'intellectual property moves offshore, tax is paid offshore and highly desirable R&D jobs are added outside Australia.'[17]

3.22 Cochlear acknowledged that the million-dollar funding from the Australian Government 30 years ago, and government initiated pairing with Graeme Clark's bionic ear and the venture capital Nucleus Group, were instrumental in its path to success.

15 CSL and Cochlear, *Submission 13*, p. 18.

16 CSL and Cochlear, *Submission 13*, p. 19.

17 CSL and Cochlear, *Submission 13*, p. 19.

3.23 Cochlear recognised the importance of this early stage support and told the committee that as part of its own innovation fund, it has set aside approximately $20 million to invest in Australian businesses. It explained that it has:

> …invested in about four or five different companies in Australia which are start-ups, and these are companies which we think have great potential down the track which might be snapped up by Medtronic or someone else down the track if it weren't for us giving them some initial funding.[18]

Tax measures

3.24 The Australian Government uses tax incentives as a tool to encourage innovation. The Research and Development Tax Incentive (R&DTI) aims to encourage innovation through research and development. DIIS stated:

> The objective of the program is to support industry to conduct R&D activities that might otherwise not be conducted…in order to raise investment in these activities towards the socially optimal level.[19]

3.25 The R&DTI provides a tax offset for some of the cost of a company doing eligible R&D activities by reducing its income tax liability. The offsets are 43.5 per cent (a refundable offset) and 38.5 per cent for costs. To apply for the offset, at a minimum, an incorporated company must:

- conduct eligible core R&D activities—defined as experiments that are guided by hypotheses and conducted for the purpose of generating new knowledge, and
- have incurred eligible R&D expenditure or notional deductions of at least $20,000 (unless using a Research Service Provider or a Cooperative Research Centre).

3.26 DIIS noted that Australia's approach to stimulating business R&D activities through the tax system aligns with the approaches of other developed countries.[20]

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18 Mr Brent Cubis, Chief Financial Officer, Cochlear, *Committee Hansard*, 1 August 2018, pp. 28-29.

19 DIIS, *Submission 24*, p. 13.

20 DIIS, *Submission 24*, p. 13.

3.27 In the 2018-19 Budget, the Government announced changes to the R&DTI to address issues identified in the 2016 review of the program. While noting that the R&DTI was the largest component of Australian Government support for innovation in 2013-14, the 2016 review found that the program fell 'short of meeting its stated objectives of additionality and spillovers.'[21]

3.28 DIIS noted that the changes announced to the R&DTI included:

- improving the integrity of the R&DTI, helping ensure ineligible R&D claims are denied;
- continuing support for smaller companies that undertake R&D activities; and
- refocusing support for larger companies towards those undertaking additional, higher intensity R&D.[22]

3.29 The Business Council of Australia supported maintaining the R&DTI to encourage innovative activity. However, it cautioned that an 'intensity-based scheme will bring unintended consequences and add complexity.'[23]

3.30 Consult Australia recommended the following further changes be made to the R&DTI:

- The presence of innovation within a project should be sufficient to allow a company to make an R&D Tax Incentive claim. The R&D Tax Incentive should be targeted to reward the outcome rather than the process, and the law should reflect this.
- Truly novel ideas for innovation in the internal business administration space should also be considered with regards to R&D.
- The Department should review the terminology of the application for the R&D Tax Incentive to achieve clearer, simpler, less bureaucratic terminology which recognises and rewards the consulting engineering and related services industry's contribution to R&D, and specifically, the target of the R&D Tax Incentive scheme.[24]

3.31 CSL and Cochlear commented that they welcomed the 2018-19 Budget announcement to increase the cap on eligible expenditure from $100 million to $150 million.[25]

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21 Mr Bill Ferris AC, Chair, Innovation Australia; Dr Alan Finkel AO, Chief Scientist; and Mr John Fraser, Secretary to the Treasury, *Review of the R&D Tax Incentive*, April 2016, p. 2.

22 DIIS, *Submission 24*, p. 13.

23 Business Council of Australia, *Submission 29*, p. 7.

24 Consult Australia, *Submission 31*, p. 23.

25 CSL and Cochlear, *Submission 13*, p. 7.

3.32 The NISA also included other tax incentives aimed to encourage investments in qualifying start-ups and to attract capital to enable these businesses to grow.[26]

3.33 The Early Stage Investor Tax Offset, for example, provides concessional tax treatment for investments made in qualifying early stage innovation companies such as start-ups with high growth potential.[27] The incentive applies to angel investors and high-net-worth individuals who invest in more risk and early stage companies.

3.34 Another measure to support businesses pursuing innovation is increasing access to company losses by relaxing the 'same business test' and introducing a 'similar business test'. Companies are able to access losses made in previous financial years where they have entered into new business or transaction types.

3.35 DIIS submitted that the Australian Government has also improved the tax treatment of asset depreciation. Under this measure, businesses can 'self-assess the tax effective life of acquired intangible assets currently set by statute, to better align with the actual number of years the asset provides an economic benefit.'[28]

3.36 CSL and Cochlear noted that peer nations use various tax measures to appeal to innovation focused companies. It stated:

> The aim of having competitive tax rates is to attract investment to Australia instead of having it go to peer nations – all of whom are equally looking to innovative industries in order to generate new skilled employment, help offset the decline in conventional manufacturing, capitalise on valuable government investment in R&D and education, and thereby contribute to the broader economy.[29]

3.37 CSL and Cochlear noted that they both maintain their global centres of R&D in Australia. They submitted that the level and availability of government support is important in making Australia attractive for R&D.

26 DIIS, *Submission 24*, p. 12.

27 This is provided for in Division 360 of the *Income Tax Assessment Act 1997*.

28 DIIS, *Submission 24*, p. 12.

29 CSL and Cochlear, *Submission 13*, p. 18.

3.38 CSL and Cochlear indicated that R&DTI encourages commercial operators like them to conduct R&D in Australia and to maximise the amount of that investment. They stated that:

> For the purposes of the R&D tax incentive, in 2016/17 CSL's qualifying R&D expenditure was AUD $100m (from a global R&D spend of USD$645m). Cochlear's eligible expenditure was AUD$100m (from a global R&D spend of AUD$152m).[30]

3.39 Similarly, the Minerals Council of Australia acknowledged that the R&DTI is 'an effective, economy-wide, market-driven measure that encourages investment in innovation.'[31] It also indicated its support for maintaining the incentive and not distorting it 'by restricting eligible on the basis of industry, firm size, R&D intensity or any other arbitrary criterion.'[32]

3.40 KPMG proposed that the Australian Government's innovation policy on providing incentives could also explore more imaginative options.

3.41 It noted the current 20 per cent non-refundable offset with a maximum of $200,000 to encourage 'mums and dads' to invest in start-ups and early innovation companies, but suggested that government should also 'allow losses to be transferred from companies to a similar start-up regimes for cash on the proviso that that investor, the company transferring the losses, would also invest a multiple of that loss transfer amount'.[33]

3.42 KPMG proposed introducing a specific Innovation Company taxation regime that would apply to companies that have outgrown being classified as an early stage innovation company for tax purposes. The objective would be to reduce movement of innovative businesses offshore.

3.43 It outlined that monetisation of the innovative company's tax losses would enable the company to transfer these losses—to be capped at a percentage of salary expenditure—to another company. The second company would then 'pay full consideration for the tax benefit of the loss at the prevailing corporate income tax rate.'[34]

3.44 To be eligible for the tax benefits associated with the first company's loss, the second company would be required to make an equity investment in

30 CSL and Cochlear, *Submission 13*, p. 19.

31 Minerals Council of Australia, *Submission 17*, p. 16.

32 Minerals Council of Australia, *Submission 17*, p. 16.

33 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 6.

34 KPMG, *Submission 21*, p. 18.

the first company to a multiple of the loss amount, and to maintain the investment for two years.

3.45 KPMG submitted that by the innovative company 'selling its tax loss', it would receive a cash injection which would enable it to 'hire additional staff and increase its innovative activities.'[35]

3.46 KPMG commented that this loss transfer approach would encourage high worth individuals to invest. It stated that this approach:

> …gives cash to start-up companies. You'd have requirements surrounding that, which would mean that the start-up could only use that cash for salary and wages, and you'd have other caps et cetera. …I think that would be a better way of trying to deal with a problem that we have at the present time—that is, as soon as companies reach a certain size they tend to go to the west coast of the US or elsewhere because they can't get the investment dollars from a particular sort of band within society.[36]

3.47 Private equity funding is an important source of non-government external funding for a business looking to innovate.

3.48 AVCAL stressed the importance of adequate and timely access to capital to enable businesses to innovate. It noted that 85 per cent of private equity backed businesses introduced some type of process or product innovation in the 2016 financial year, which was 'far greater than the average profile of non-PE backed businesses.'[37]

3.49 AVCAL argued that while the early-stage venture capital limited partnership regime (ESVCLP) and the venture capital limited partnership regime (VCLP) have been around for some time, one of the significant NISA changes was the 10 per cent tax offset for institutional investors like superannuation funds to be able to invest in that part of the market. It acknowledged that this measure was not the only driver of investment, but stated that:

> Institutional investors, be they domestic or offshore, certainly do value to a very significant extent the importance of that certainty and signalling about the future.[38]

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35 KPMG, *Submission 21*, p. 18.

36 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 6.

37 AVCAL, *Submission 11*, p. 13.

38 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 17.

Private and public research collaborations

3.50 DIIS submitted that Australian businesses that collaborate with publicly funded research organisations are 'over three times more likely to achieve annual productivity growth.'[39] However, it stated that:

> Australia's levels of business-research collaboration are among the lowest in the OECD, particularly for SMEs [Small and Medium Enterprises] as many lack the capabilities and networks necessary to identify and engage high quality research.[40]

3.51 Further, DIIS noted that there are barriers to businesses engaging with the research sector. It stated:

> There are cultural differences, for a start. Businesses are also short of time. They can feel that there are risks around investing their money without a clear understanding of what would be the benefits.[41]

3.52 DIIS indicated that the Australian Government supports business-research through a range of NISA measures, including the Industry Growth Centre initiatives and extending the Entrepreneurs' Program to assist SMEs to collaborate with the research sector.[42]

3.53 The Cooperative Research Centres (CRC) Program is one of the key programs aimed at helping businesses engage more with the knowledge and skills in the research sector. The CRC Program provides support to industry, research and the community through:

- grants (up to 10 years) to support medium to long terms industry-led collaborative research, and
- CRC-Projects grants (up to 3 years) to support short term, industry-led collaborative research.

3.54 In particular, the CRC-Projects stream is targeted at SMEs. DIIS outlined that:

> SMEs with a good idea can collaborate and partner with a research organisation. They can get grant funding of up to $3 million over three years to undertake a project that can really go towards the

39 DIIS, *Submission 24*, p. 14.

40 DIIS, *Submission 24*, p. 14.

41 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

42 DIIS, *Submission 24*, p. 14.

> business needs and what they can draw on from the research community.[43]

3.55 In a 2012 review, the Allen Consulting Group found that the CRC program 'delivers a 3:1 return on investment, citing examples such as $120 million in value added by the HEARing CRC technology used by Cochlear.'[44]

3.56 The CRC Projects part of the program, introduced in 2015, provides SMEs with opportunities to build their capacity to grow and adapt to changing markets.

National Research Infrastructure

3.57 DIIS acknowledged that governments have a role to play in ensuring the availability of strong research infrastructure.

3.58 The National Collaborative Research Infrastructure Strategy (NCRIS), a NISA initiative, is a national network of research infrastructure projects that support high-quality research aimed at driving greater innovation in the Australian research sector and the economy more broadly.

3.59 DIIS noted that Australian businesses can access the 42 National Research Infrastructure (NRI) facilities by co-investment arrangements or through fee-for-service agreements. It noted that businesses access the facilities to:

> …create and test new concepts and improve existing processes and products. Businesses also support these facilities, providing consumables, equipment and advice. Further, NRI facilities offer unprecedented opportunities for collaboration with researchers – bringing together individuals from across institutions and sectors.[45]

3.60 It is expected that the NRI will play a role in 'equipping Australian businesses to remain competitive with a transitioning economy.'[46]

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43 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

44 DIIS, *Submission 24*, p. 14.

45 DIIS, *Submission 24*, p. 15.

46 DIIS, *Submission 24*, p. 15.

Venture capital

3.61 While venture capital is an important source of funding for business investment generally, it is particularly important for investment in innovation.

3.62 However, AVCAL cited the *Innovation System Report 2017* observation that OECD data showed that 'Australian VC investment as a proportion of GDP continues to rank significantly below other OECD countries at 0.013 per cent of GDP, compared to an OECD average of 0.054 per cent.'[47] However, it acknowledged that the Australian venture capital sector has 'enjoyed a resurgence over recent years'.[48]

3.63 DIIS observed that that there is 'a market failure in Australia in terms of the size of the venture capital sector and the availability of risk capital.'[49] However, it advised that the Australian Government has been working to address these market failures, and stated:

> Government has been a key driver of growth in the venture capital and early-stage sort of investment space through some of its tax concession programs—and I mentioned the investor tax offset before and our early-stage venture capital partnerships program. We've also had some co-investment funds that have been targeted very specifically at certain sectors, like the biomedical and health sectors.[50]

3.64 NISA initiatives included changes to Venture Capital Limited Partnerships.

3.65 CSL and Cochlear noted that the ESVCLP program aims to increase investment in early stage venture capital businesses by providing a flow-through tax incentive and exemption on an investor's share of a fund's income.

3.66 They noted that while the program was initially aimed at attracting foreign capital, in 2007 it was expanded to incentivise Australian-based early stage venture capital.

3.67 However, CSL and Cochlear recommended that the Australian Government re-examine initiatives aimed at encouraging Australian based

47 AVCAL, *Submission 11*, p. 8.

48 AVCAL, *Submission 11*, p. 8.

49 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

50 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

capital investment in early stage and mature life sciences companies. They submitted that the program was not working as it should to support Australian innovation. It provided a case study that:

> In 2017 Innovation and Science Australia's Innovation Investment Committee declined to register Cochlear and its investment partners Macquarie University and RIDBC under the ESVCLP program. This was because Cochlear's investment exceeded 30% of the total committed capital. Under the relevant legislation only exempt financial institutions are able to exceed this amount. However the Board may also exercise a discretion to allow a partner to exceed this amount. It had not previously exercised the discretion, declined to on this occasion and still has not.[51]

3.68 CSL and Cochlear recommended that the Australian Government issue guidelines to ensure that the Board can provide exemptions for companies that demonstrate 'an active, sizeable commitment to Australian innovation.'[52]

3.69 Alternatively, CSL and Cochlear proposed developing support for corporate venture activities, where large firms take an equity stake in a small innovative company, and provide management and marketing expertise. This will provide these innovative enterprises with a competitive advantage and improve their viability.

Co-investment

3.70 Government co-investment with private enterprises has played an important part in supporting innovation by businesses. Australia and other countries are investing in high growth, innovative companies, and in doing so are attracting private capital from sectors of the economy where there is a market or investment gap.

3.71 The Biomedical Translation Fund (BTF) is a leading example of a current co-investment program. The BTF provides companies with venture capital through licensed private sector fund managers to develop and commercialise biomedical discoveries in Australia. This NISA initiative involves a $501.25 million fund, with $250 million from the Australian Government and $251.25 million in private sector capital.

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51 CSL and Cochlear, *Submission 13*, p. 15.

52 CSL and Cochlear, *Submission 13*, p. 15.

3.72 AVCAL recommended that the Australian Government consider applying the BTF model more broadly in terms of the types of companies to be supported.

3.73 It also proposed introducing a national innovation fund, to catalyse new co-investing opportunities in parts of the market that do not tend to attract capital. AVCAL described its proposed approach as very similar to the Innovation Investment Fund previously in place, but would involve broadening the sorts of companies that could be supported. It would be a 'matching scheme where private investors, alongside government, would pull together funds and then that money would be invested by professional venture capital managers'.[53]

3.74 AVCAL submitted that a partnership arrangement such as this, which is not a grant, is a smart way for governments to utilise limited resources to catalyse activity in the private sector. It stated:

> There are not many areas of policy where you can quite directly make a link between government expenditure and the creation of an asset. There are many indirect links, but this is one area of policy where we think there's fertile ground to do much more in the future…[54]

3.75 AVCAL suggested that a National Innovation Fund should include:

- a minimum government contribution of $500 million over two years (with returns reinvested)
- matching capital commitments from private investors and government, and
- a competitive bid process.[55]

3.76 The committee noted there is currently a CSIRO Innovation Fund of up to $200 million to support the early stage commercialisation of innovations. This is a joint public and private sector fund to help Australia's home-grown innovations become successful businesses, and by extension create jobs and boost Australia's productivity. The fund comprises $70 million in Australian Government funding, $30 million revenue from CSIRO's WLAN programme, and $100 million in private sector investment.

53 Mr Kosta Sinelnikov, Policy and Research Manager, AVCAL, *Committee Hansard*, 31 July 2018, p. 22.

54 Mr Yasser El-Ansary, Chief Executive, AVCAL, *Committee Hansard*, 31 July 2018, p. 22.

55 AVCAL, *Submission 11*, p. 9.

3.77 However, the fund only applies to professional investors and companies, not to retail or 'mum and dad' investors.

3.78 The Australian Government also provides funding to six Growth Centres under the Industry Growth Centre Initiative aimed at driving innovation, productivity and competitiveness. The initiative is industry-led by sector experts, as industry is best placed to drive cultural change and overcome barriers to innovation, productivity and growth.

3.79 Since this initiative was established in 2015, the Australian Government has committed over $46 million to over 100 collaborative projects and leveraged $63.2 million from industry and research partners. The Growth Centres have:

- engaged with over 25,000 firms, research organisations and industry associations…
- helped over 150 Australian businesses secure contracts and grow export sales, and
- connected many hundreds more to potential markets and supply chains, here and overseas.[56]

3.80 On 4 December 2018, the Australian Government announced that it would extend funding for the six Growth Centres for a further two years.

Other Government support for science and innovation

3.81 The Office of Innovation Science Australia (ISA) developed a strategic plan for the Australian innovation, science and research system to 2030.

3.82 The *Australia 2030: Prosperity through Innovation* report made 30 recommendations in five key strategic areas: education; industry; government being a catalyst for innovation and a recognised global leader; improving the effectiveness and commercialisation of research and development; and culture and ambition.

3.83 The Australian Government supported, or supported in principle, 27 of the 30 recommendations.

56 The Hon Karen Andrews MP, the Minister for Industry, Science and Technology, 'Industry Growth Centre Showcase', *Speech*, 4 December 2018, <https://www.minister.industry.gov.au/ministers/karenandrews/speeches/industry-growth-centres-showcase>, accessed 20 November 2018.

3.84 The Australian Government's Australian Technology and Science Growth Plan, aims to provide infrastructure and support to develop Australia's competitiveness in the global markets. The plan included:

- $41 million for growing the Australian space industry (part of a $302 million space package, which included measures for satellite infrastructure).
- $20 million for SMEs Export Hubs program to take local businesses global.
- $20 million to support Australian innovation in Asia.
- $29.9 million to build Australia's Artificial Intelligence capability to support businesses and workers, including funding for CRC projects with a focus on AI, and a national framework to address standards and ethics for the use of this technology.
- $4.5 million to encourage more women to pursue education and careers in Science, Technology, Engineering and Mathematics (STEM).
- To develop better data to track innovation in Australia, within existing resources.[57]

Timing considerations

3.85 The Australian Small Business and Family Enterprise Ombudsman suggested that government programs need to better reflect the timing required to implement innovative ideas. It stated:

> It can take years for SMEs to get innovative measures implemented (factoring in research, prototypes and testing). Yet most government programs that support innovation last 12, possibly, 18 months. Small businesses cannot afford to invest in innovation without certainty of long term economic policies.[58]

57 DIIS, *Submission 24*, p. 11.

58 Australian Small Business and Family Enterprise Ombudsman, *Submission 30*, p. 1.

Additional factors affecting innovation

STEM skills

3.86 In addition to accessing capital, businesses undertaking R&D and pursuing innovation also require people with the right skillsets to create and develop the innovative ideas.

3.87 Finding workers with appropriate skills in the science, technology, engineering and mathematics (STEM) disciplines was identified by business as a challenge. DIIS stated that:

> Businesses that innovate are twice as likely to use STEM skills, and 70 per cent of Australian employers identify STEM employees as the most innovative. However, research also shows the integration of STEM skills with other skills is key to success in a wide range of fields. The National Science Statement recognises that science is part of a broader research ecosystem and that both STEM and other skills are needed to support innovation and the translation of research into practical outcomes.[59]

3.88 Consult Australia submitted that 'Australia's position as an innovative and highly skilled service industry leader has rapidly fallen',[60] while other nations are investing heavily in STEM. In particular, it noted that China and India are outperforming their western counterparts in the number of STEM graduates.

3.89 Consult Australia identified a significant constraint on its consulting companies has been at the mid-tier and senior executive level. It also submitted that the diminishing pool of engineering graduates has been a concern. It stated:

> Imagine you've already got the gap at your senior level. You're able to recruit a certain level of graduates; however, if that pool diminishes, you will then get a smaller number again coming through into that mid-tier, senior level as they progress through their career. …at a time when we've got enormous infrastructure projects to deliver, we really need to make sure that we've got a strong pipeline of skills coming through the system. Otherwise,

59 DIIS, *Submission 24*, p. 15.

60 Consult Australia, *Submission 31*, p. 7.

> we have to rely on the short-term fix of immigration, temporary skills visas to bring skills in from overseas.[61]

3.90 DIIS noted that there is strong evidence that STEM skills are already in considerable demand and that this demand will increase in the future. It commented that STEM skills are 'already nearly 50 per cent of the key skills that we need in industries right now'.[62]

3.91 To help address this challenge, the Australian Government made an initial $112 million investment over four years (2016-17 to 2019-20) under the NISA to increase participation in STEM studies.

3.92 The NISA Inspiring Australia initiative is aimed at increasing Australians' engagement with science. The Inspiring Australia Science Engagement Programme, administered by DIIS, provides grants and prizes to eligible schools, organisations and individuals. It is scheduled for evaluation in 2018 to 2019.

3.93 The NISA includes a $64 million allocation to fund early learning and school STEM initiatives.

3.94 While it is too early to see the impact of these programs on businesses accessing workers with these skills, DIIS advised that there has been a very strong uptake of the programs supported by the NISA. The strategies are about 'building the pipeline' for the medium to longer term.[63]

3.95 In its NISA initiatives in relation to STEM, the Australian Government has also focused on encouraging female participation in these disciplines—an area where there has traditionally been gender inequality. The initiative comprises:

- The Women in STEM and Entrepreneurship Grants programme ($8 million over four years and $1 million ongoing thereafter) to support projects that boost the participation in STEM education and careers, including as entrepreneurs.
- The expansion of the Science in Australia Gender Equity (SAGE) project ($2 million) made available to all Australian publicly-funded research organisations to help increase the number of female researchers in the workforce and particularly in senior roles.

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61 Mrs Nicola Grayson, Director, Policy and Government Relations, Consult Australia, *Committee Hansard*, 31 July 2018, pp. 27-28.

62 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, p. 11.

63 Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division, DIIS, *Committee Hansard*, 7 August 2018, pp. 11-12.

- Support to establish a Male Champions of Change for STEM group ($2 million) which challenges men in leadership positions to drive cultural change on gender equality issues in major Australian STEM-related organisations.[64]

3.96 In the 2018-19 Budget, the Australian Government committed a further $4.5 million to support gender equity in the sciences.

Digital capability

3.97 Chapter 6 discusses the importance of communications infrastructure, in particular the need for comprehensive mobile coverage and for fast and reliable broadband services, to enable Australian businesses to operate effectively and grow.

3.98 The committee heard that the National Broadband Network (NBN) has the potential to provide significant innovation opportunities to business across Australia. However, some groups expressed concerned that the delays and disruptions to the NBN roll out were impeding businesses operations and their ability to pursue these innovative opportunities.

3.99 A NSW Business Chamber survey of businesses in the state found that:

> …almost 40 per cent of respondents had to wait more than four weeks for their NBN service to be fully operational, with some businesses reporting no internet or phone during this period. This meant an inability to not only receive or process electronic payments but engage with customers effectively.[65]

3.100 Despite the identified concerns, the NSW Business Chamber expressed support for the Australian Government's investment in the NBN. To address roll out concerns—including the perceived lack of accountability, responsibility and coordination between retailers—the NSW Business Chamber proposed a national broadband service guarantee that would require 'wholesalers, retail service providers and contractors and installers to work together to deliver agree service standards', with a focus on ensuring reliability, quality and timely fault rectification.[66]

3.101 Cost pressures are a major factor for businesses attempting to modernise their technology and compete in the digital age. In the retail space, there is an increasing preference for online shopping with some demographics,

64 DIIS, *Submission 24*, p. 16.

65 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

66 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

such as younger people, and consumers having high expectations for convenience and interconnectivity.

3.102 The Australian Retailers Association submitted that while Australian retailers are doing their best in adapting to challenges in the sector, in-house innovation will not be enough. It suggested that assistance is needed from all levels of government.[67]

Reducing regulatory barriers

3.103 Regulatory barriers can impede investment in innovation. For example, Insurance Council of Australia members found the significant expenditure on regulatory compliance to be the greatest impediment to investment in innovation.

3.104 Regulatory sandboxes are an option for innovators to test business ideas and products, without fear of enforcement actions if they are found not to have complied with existing regulations.

3.105 The Public Interest Advocacy Centre noted that in Australia regulatory sandboxes are being used in NSW for fintech businesses. Internationally, specific innovative energy services sandboxes are being run by regulators in Great Britain and Singapore.[68]

3.106 The RMIT Blockchain Innovation Hub suggested an alternative to regulatory sandboxes for experimentation would be by adopting the regulatory philosophy of 'permissionless innovation'. This would involve having less regulation to enable more business experimentation.

3.107 The RMIT Hub described this approach as allowing the innovation to occur and then, 'when you identify problems, you regulate or you add consumer protection afterward.'[69] When discussing Australia's regulatory approach to blockchain the RMIT Hub stated that:

> …you can limit the damage [of business experimentation] so it's not sort of mom-and-pop type harm if that's what you're

67 Mr Russell Zimmerman, Executive Director, Australian Retailers Association, *Committee Hansard*, 1 August 2018, p. 16.

68 Public Interest Advocacy Centre, *Submission 6*, p. 4.

69 Dr Chris Berg, Senior Research Fellow, RMIT Blockchain Innovation Hub, School of Economics, Finance and Marketing, RMIT University, *Committee Hansard*, 17 October 2018, p. 23.

> concerned about. But, more generally, Australia is competing in a global marketplace here.[70]

3.108 In relation to developing blockchain technology, the RMIT Hub stressed the importance of signalling that Australia is making the regulatory changes to compete in the global market in this area.

Evaluating innovation policy outcomes

3.109 In recent years, governments at the Commonwealth and state levels have introduced a range of strategies and initiatives (including funds and grants) for innovation broadly, and more specifically in the medical technology and manufacturing sectors.

3.110 Given the significance of innovation for Australian business viability and wider economic growth, it is important that government innovation policies are efficient and having the intended effects.

3.111 While participation rates may demonstrate interest in a program, this is not enough to confirm that the program is effective and value for money.

3.112 CSL and Cochlear submitted that Australian Government innovation policies should include:

> …a focus on consistency and clarity in programs and initiatives—ensuring there are clear objectives and KPIs for funds and grants and, that strategies and plans are implemented and reviewed.[71]

3.113 Innovation and Science Australia, in its *Australia 2030: Prosperity through Innovation* report, recommended that the Australian Government invest in developing a more effective framework to evaluate Australia's performance in the innovation race. This was proposed to include:

- Introducing a requirement that new government funding programs and policies aimed at supporting innovation dedicate approximately 2 per cent of their budget for the evaluation of outcomes that should be clearly identified in advance.
- Tasking the Australian Government Department of Industry, Innovation and Science with developing a stronger longitudinal evidence base for program effectiveness, to improve the longevity of high-impact innovation programs, inform

70 Dr Chris Berg, Senior Research Fellow, RMIT Blockchain Innovation Hub, School of Economics, Finance and Marketing, RMIT University, *Committee Hansard*, 17 October 2018, p. 23.

71 CSL and Cochlear, *Submission 13*, p. 12.

> cessation of ineffective programs, and underpin iterative improvement of all programs.[72]

3.114 The Australian Government supported this recommendation in principle and expressed its commitment to effective evaluation. It indicated that it would identify appropriate evaluation funding models, and in doing so will have regard to models used in comparable countries. Further, it stated:

> The Government has robust frameworks in place that drive evaluation activities across government. For example, the Business Longitudinal Analysis Data Environment (BLADE), funded through the 2017–18 Budget measure, Data Integration Partnership for Australia, uses government-owned data to conduct robust program evaluations and inform the development of future innovation and industry policy.[73]

Conclusions and recommendation

3.115 Innovation has an increasingly important part to play in Australia's economic growth. However, the committee heard that left to themselves businesses tend to underinvest in research and development (R&D). This illustrates why government engagement and well-targeted innovation policies are crucial to encourage Australian businesses to undertake R&D and to innovate.

3.116 In particular, translating innovative ideas into commercially viable business ventures is an area in which Australian businesses can benefit from strategic government support and funding.

3.117 This targeted approach will help ensure that as a nation Australia is getting a return on public spending on skilling people and generating innovative ideas, instead of losing people, ideas and innovative businesses to overseas opportunities.

3.118 Through direct funding and grants, tax measures and other enabling measures, the Australian Government is fostering an environment that supports businesses to innovate and grow.

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72 Innovation and Science Australia, *Australia 2030: Prosperity through Innovation*, November 2017, p. 100.

73 Department of Industry, Innovation and Science, *Australian Government response to Innovation and Science Australia's Australia 2030: Prosperity through Innovation*, May 2018, p. 18.

3.119 The committee commends the Australian Government's, and state and territory governments', commitment to strategically supporting business and wider innovation to help ensure that Australia remains competitive.

3.120 The committee notes the effectiveness of the Australian Government and private sector $501.25 million Biomedical Translation Fund (BTF) established to commercialise promising discoveries in that sector. The committee recognises that a similar scheme with broader application could similarly benefit other sectors in Australia to more effectively commercialise innovative ideas.

3.121 The committee noted evidence that the Australian Government's National Innovation and Science Agenda (NISA) has been an important catalyst in the country's innovative economy, and crucial in getting Australia 'back on track' to be able to compete in the global marketplace.

3.122 However, the committee shares concerns expressed by stakeholders in evidence to the inquiry that without continued targeted focus on science and innovation Australian businesses may not remain competitive.

3.123 As the four year NISA funding commitment nears the end in 2019, it is important for the Australian Government to recommit to this initiative and its funding going forward.

Recommendation 7

3.124 **The committee recommends that the Australian Government consider recommiting to the National Science and Innovation Agenda (NISA), and making provision from the 2019-2020 Budget to fund NISA initiatives for another four years.**

3.125 The committee also notes that in parallel to the NISA and broader innovation policies, the Australian Government should ensure that it has appropriate evaluation processes in place to assess whether these policies and specific initiatives are performing efficiently and effectively.

3.126 In addition to access to capital to fund innovation, businesses must also be able to access workers with the required skillsets. The committee notes that some groups expressed concern about not being about to find workers with the required professional skills. In particular, shortages in science, technology, engineering and mathematics (STEM) skillsets were raised.

3.127 Immigration is an important source for skilled labour. However, it is also important to grow Australia's own domestic capacity with targeted support for education in shortage areas such as in the STEM disciplines.

3.128 The committee notes that the Australian Government has introduced a range of initiatives to encourage Australians to engage in STEM disciplines. While the effects on increasing the STEM graduate pool will not be immediately evident, this is an important policy and funding commitment to enable businesses in the medium to longer term to draw on local talent to innovate and remain competitive.

4

Taxation policies

4.1 Taxation is a key factor influencing business investment in Australia. The need for stable and transparent taxation policies that are internationally competitive and do not place an unfair burden on businesses, were key messages during the inquiry.

4.2 The Department of Foreign Affairs and Trade (DFAT) and the Australian Trade and Investment Commission (Austrade) commented that taxes 'affect investment in fixed (including intangible) capital, innovation, allocative efficiency, entrepreneurship, labour productivity and exposure to trade and Foreign Direct Investment.'[1]

4.3 The committee heard that complex, onerous and uncompetitive tax measures can hinder domestic business investment and discourage foreign investment in Australia. However, groups acknowledged that while a factor, tax is not the only consideration when it comes to attracting investment to Australia.

4.4 Austrade observed that foreign investors valued 'certainty, transparency, predictability of policy, and regulation that is harmonised.'[2] It stated that:

> I do know from talking to investors that they do look at tax as an input into their financial modelling. They do look at after-tax returns; that's a very important part. And just like energy costs or labour costs, it can go up or down, depending on how that is. So,

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1 Department of Foreign Affairs and Trade (DFAT) and Australian Trade and Investment Commission (Austrade), *Submission 19*, p. 7.

2 Mr Graham Putt, General Manager, Trade and Investment, Austrade, *Committee Hansard*, 7 August 2018, p. 16.

> looking at an after-tax return is a very important element of any investor.[3]

4.5 Further, Austrade outlined that in addition to tax, foreign investors will also consider the following elements when making their investment decision:

- Australia's strong legal framework
- Australia's years of continuous economic growth
- availability of skilled labour
- competitiveness of the relevant industry, including export and local market opportunities
- Australia's proximity to Asia, and
- Australia's high-quality assets.

4.6 Tax measures encouraging innovation are detailed in Chapter 3 on innovation.

International competitiveness

4.7 A number of groups stressed the importance of Australia remaining competitive in order to attract capital investment.

Company tax rates

4.8 On 11 May 2017, the Treasury Laws Amendment (Enterprise Tax Plan No. 2) Bill 2017 was introduced to the House of Representatives. It proposed to progressively extend the lower corporate tax rate to all corporate tax entities, and further reduce the corporate tax rate to 25 per cent by 2026–27. On 21 August 2018, the Australian Government announced it will not be proceeding with the Bill.[4]

3 Mr Graham Putt, General Manager, Trade and Investment, Austrade, *Committee Hansard*, 7 August 2018, p. 16.

4 Australian Tax Office (ATO), *Reducing the corporate tax rate*, 31 October 2018, <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Reducing-the-corporate-tax-rate/>, accessed 5 November 2018.

4.9 Australia has a two-tiered system for company taxes: the full company tax rate of 30 per cent; and, from 2017-18, a lower company tax rate of 27.5 per cent for companies (base rate entities) with an aggregated annual turnover below a certain level.

4.10 A base rate entity is a company that:

- has an aggregated turnover less than the aggregated turnover threshold ($25 million for the 2017–18 income year and $50 million from 2018-19), and
- 80 per cent or less of their assessable income is base rate entity passive income (for example, corporate distributions, royalties and rent, interest income, and a net capital gain). This replaces the requirement to be carrying on a business.[5]

4.11 Evidence to the inquiry stressed that Australia's company tax rates are too high in contrast to comparable nations. A range of groups argued that this puts Australia at a disadvantage when it comes to attracting business investment.

4.12 The Australian Retailers Association (ARA) argued that Australia's relatively high company tax rates 'discourage investment and stifle competition, especially with overseas businesses who enjoy better trading conditions.'[6]

4.13 DFAT and Austrade noted that Australia's company tax rates are now 'significantly above the average rate of other countries, particularly our Asian neighbours, with who we compete for foreign investments.'[7] However, Austrade also observed that 'the feedback we received from investors is that a lower tax rate is always welcome, but that is only part of an investment decision.'[8]

4.14 The ARA described Australia as 'an overly complex, high-taxing economy'.[9] It cautioned that with 'recent moves by several of Australia's G20 counterparts to reduce corporate tax rates by 2020' Australia will be left 'further behind the world's advanced economies.'[10] The ARA stated

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5 ATO, *Changes to company tax rates*, < https://www.ato.gov.au/Rates/Changes-to-company-tax-rates/?page=1#Base_rate_entity_company_tax_rate>, accessed 14 December 2018.

6 Australian Retailers Association (ARA), *Submission 15*, p. 18.

7 DFAT and Austrade, *Submission 19*, p. 8.

8 Ms Margaret Bowen, Assistant General Manager, Ministerial, Economic and International Engagement, Austrade, *Committee Hansard*, 7 August 2018, p. 17.

9 ARA, *Submission 15*, p. 21.

10 ARA, *Submission 15*, p. 18.

that if the company tax rate is not reduced then there will be 'whole swag of companies that are going overseas.'[11]

4.15 The Minerals Council of Australia (MCA) noted that it had commissioned a study into Australia's investment challenges arising from the 2018 tax reforms in the United States. The study found that 'by 2020 Australia is set to have the second highest company tax rate in the Organisation of Economic Co-operation and Development (OECD).'[12]

4.16 The committee heard that Australia's company tax rates makes it less competitive, particularly when compared to peer nations like the United Kingdom and the United States, and geographical neighbours like Singapore.[13]

4.17 When questioned by the committee on how Australia's company tax rates compare with its Asian neighbours, DFAT advised that the tax rates are: China 25 per cent; Singapore 17 per cent; Malaysia 24 per cent; Japan 30.62 per cent (reduced from 30.86 per cent); and Thailand 20 per cent.[14]

4.18 KPMG supported company tax reductions and stressed that governments need to take a long-term view when considering company tax settings. It noted that the benefits were not instant, but occurred over a long period of time.

4.19 CSL and Cochlear described the international competition for capital investment as 'fierce'. They cautioned that Australia, with its 'overall corporate tax rate of 30 per cent and zero differential or boutique offerings in exchange for investments and jobs is becoming increasingly isolated as a high-tax jurisdiction uncompetitive internationally'.[15] They stated:

> An overall reduction in corporate tax rates is now standard practice internationally. From 2017, the UK corporate tax rate is 19% (reducing to 17% in 2020), from 2020, the French corporate tax rate is 28% (reducing to 25% in 2022), and from 2018 the US Federal tax rate is 21%.[16]

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11 Mr Russell Zimmerman, Executive Director, ARA, *Committee Hansard*, 1 August 2018, p. 21.

12 Minerals Council of Australia (MCA), *Submission 17*, p. 14.

13 CSL and Cochlear, *Submission 13*, p. 17.

14 DFAT and Austrade, *Submission 19.1*, p. 5.

15 CSL and Cochlear, *Submission 13*, p. 17.

16 CSL and Cochlear, *Submission 13*, p. 17.

4.20 Cochlear acknowledged that tax was 'just one of a dozen factors' that investors take into account when considering an investment opportunity. However, it noted that tax does impact on the 'overall net present value of the total investments.'[17] Cochlear commented that:

> Interestingly, last week—we're looking at a small investment at the moment in Europe and Israel, and they were out here. One of them commented at the time: 'Gee, I didn't realise that tax was so high in Australia.' That was just off the cuff, but there are lots of discussions around that at the moment in Australia.[18]

4.21 The MCA argued that 'Australian businesses need a lower corporate tax rate to increase investment, jobs and wages.'[19] It also noted that for the mining sector, royalties, while not technically a tax, also had to be paid to the state governments. The MCA claimed that added to the company tax, the two put the effective tax for mining investment in Australia 'somewhere in the 40s—close to 50 per cent'.[20]

4.22 The MCA concluded that irrespective of the type of tax, it is important that the rate is internationally competitive.

4.23 Similarly, the Business Council of Australia stated that 'reducing the company tax rate for larger businesses is becoming more urgent by the day.'[21] It asserted that even a reduction to 25 per cent by 2026-27 will 'barely keep Australia in the game.'[22] It noted that 25 per cent would still be above the OECD average of 24 per cent and the Asian average of 21 per cent.

4.24 The Institute of Public Affairs contended that Australia's tax system discourages investment and job creation, and called for the corporate tax rate to be reduced to at least 25 per cent, but 'ideally to 10 per cent.'[23]

4.25 It is important to note that the headline (basic) company tax rate and the effective tax rate (the average rate at which a company's pre-tax profits are taxed) may differ. While a business may fall under a certain rate, other tax measures and arrangements will affect how much tax the business effectively pays.

17 Mr Brent Cubis, Chief Financial Officer, Cochlear, *Committee Hansard*, 1 August 2018, p. 27.
18 Mr Brent Cubis, Chief Financial Officer, Cochlear, *Committee Hansard*, 1 August 2018, p. 27.
19 MCA, *Submission 17*, p. 15.
20 Mr James Sorahan, Director, Taxation, MCA, *Committee Hansard*, 1 August 2018, p. 36.
21 Business Council of Australia, *Submission 29*, p. 6.
22 Business Council of Australia, *Submission 29*, p. 6.
23 Institute of Public Affairs, *Submission 34*, p. 4.

4.26 The Institute of Public Affairs observed that even when taking effective company tax calculations into consideration, Australia still compares unfavourably with other developed countries. It stated:

> In terms of the effective corporate tax…there is actually a straightforward study by PricewaterhouseCoopers that finds our effective rate is 26 per cent compared to a global average of 16.3 per cent. …we have the third-highest corporate tax-to-GDP ratio and one of the highest statutory corporate tax rates. The point is that we put all these different measures forward because the reality is that no matter which way we look at our corporate tax rate it's one of the highest in the developed world.[24]

4.27 KMPG also acknowledged the importance of the effective tax rate. It stated that when looking at where Australia sits globally:

> There was a publication produced in the US by the Tax Foundation called the *International tax competitiveness index*, and overall that places Australia, out of 35 Countries, at seventh place in its total tax system. When it looks at company tax systems…our standing falls from seventh to 25th out of the 35 countries. So, overall, there is a view presented by the Tax Foundation that our tax system in general is relatively well-placed, but we are towards the lower end from a corporate tax competiveness perspective.[25]

4.28 The Tax Institute called for moving to a unified 25 per cent company tax rate as quickly as possible because comparable rates overseas are lower. It also commented that the two-tiered company tax rate system has 'added unnecessary complications to Australia's corporate tax rate system'.[26]

4.29 The Tax Institute recognised that while important, the company tax cut is not 'a fix for everyone and for all our problems', and that it is part of a 'much broader jigsaw puzzle that needs to be considered in totality.'[27]

24 Mr Daniel Wild, Research Fellow, Institute of Public Affairs, *Committee Hansard*, 1 August 2018, p. 46.

25 Mr Brendan Rynne, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 3.

26 The Tax Institute, *Submission 23*, Attachment 1 – '2018-19 Federal Budget Submission', p. 7.

27 Professor Robert Deutsch, Senior Tax Counsel, the Tax Institute, *Committee Hansard*, 31 July 2018, p. 49.

Reducing the tax burden for small businesses

4.30 On 19 May 2017, the Australian Government reduced the company tax rate for businesses with a turnover of less than $25 million for the 2017–18 income year and less than $50 million for the 2018–19 income year.[28]

4.31 The *Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Act 2018* provides that only corporate entities that meet the aggregated turnover threshold and have no more than 80 per cent base rate entity passive income are eligible for the lower corporate tax rate. The date of effect is from the 2017–18 income year.

4.32 The *Treasury Laws Amendment (Lower Taxes for Small and Medium Businesses) Act 2018* accelerated the future reductions in the corporate tax rate for base rate entities as follows:

- 27.5 per cent for the 2019–20 income year (as previously legislated)
- 26 per cent for the 2020–21 income year
- 25 per cent for the 2021–22 income year and for subsequent income years.

4.33 To further assist small businesses, the Australian Government has also announced the creation of a Small Business Concierge Service within the Australian Small Business and Family Enterprise Ombudsman's office (ASBFEO) and a dedicated Small Business Taxation Division within the Administrative Appeals Tribunal to help small business more efficiently resolve tax disputes with the Australian Taxation Office.

Instant asset write-off

4.34 The instant asset write-off involves simplified depreciation rules that enable business to write-off assets in the year they are bought and used, or installed ready for use. The current threshold for an instant asset write-off is $20,000—a marked difference from the $1,000 and $6,500 limits prior to May 2015. The business must have a turnover of less than $10 million and the entire cost of the asset must be less than the $20,000 threshold.

4.35 Assets valued over $20,000 are not eligible for the instant write-off and will be deducted over time.

28 Australian Tax Office (ATO), *Reducing the corporate tax rate*, 31 October 2018, <https://www.ato.gov.au/General/New-legislation/In-detail/Direct-taxes/Income-tax-for-businesses/Reducing-the-corporate-tax-rate/>, accessed 5 November 2018.

4.36 In the 2015-16 Budget, the Australian Government announced that it would increase the small business immediate deductibility threshold from $1,000 to $20,000 from 12 May 2015 until 30 June 2017.[29] At that time, small businesses were defined as having an aggregate annual turnover of less than $2 million.

4.37 The $20,000 threshold has since been extended twice. In the 2017-18 Budget the Treasurer announced that the measure would be extended by 12 months to 30 June 2018. It then applied to businesses with aggregated annual turnover of less than $10 million.

4.38 In September 2018, the Australian Government extended the $20,000 instant asset write-off for a further 12 months to 30 June 2019. This will enable 3.3 million small businesses with an annual turnover of less than $10 million to access the write-off, providing those businesses with the opportunity to reinvest in their business and replace or upgrade their assets.[30]

4.39 Unless further extended, the instant asset write-off threshold for SMEs will return to $1,000 on 1 July 2019.

4.40 The ASBFEO indicated that it would like to see the instant asset write-off as a long-term policy. It outlined that small businesses had reported that the $20,000 instant asset write-off is 'of particular importance to their ability to continue investing in their business.'[31]

4.41 Further, the ASBFEO recommended increasing the threshold to $100,000 every three years, to encourage new business investment. It stated:

> A decision of putting it in again next budget doesn't give small business the opportunity to plan for a future investment. We'd like to suggest that with small business, could that amount be put up to say $100,000, because the issue of major capital purchases in small business is not just the capital purchase itself; it's the whole red tape issue of depreciation and all the sorts of things that go with that. With a small business it's not like they've got a lot of money floating around in the bank. For them to make a major investment into capital to grow their business, they need to plan

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29 The *Tax Laws Amendment (Small Business Measures No. 2) Act 2015* gave effect to the change.

30 The Treasurer, the Hon Josh Frydenberg MP, '$20,000 instant asset write-off extension passes Parliament', *Media Release 006-2018,* 12 September 2018, <http://jaf.ministers.treasury.gov.au/media-release/006-2018/>, accessed 8 October 2018.

31 ASBFEO, *Submission 30*, p. 2.

> for that. To be able to write it off immediately would be a huge benefit.[32]

4.42 While acknowledging that an unlimited amount would be unworkable, the ASBFEO pointed out that currently a business can write-off multiple lots of $20,000 assets, but that 'the moment you need a new ute or tractor or some machinery for your factory that is over $20,000, you're out of the game.'[33]

4.43 The NSW Business Chamber noted that the measure has been a 'very big positive for business' and supported having the instant asset write-off implemented as a standing item in the tax code.[34]

Conclusions and recommendations

4.44 The committee notes evidence to the inquiry that tax is a factor that investors consider when deciding whether to invest in Australia. There are other considerations that positions Australia well for attracting foreign investment, including: Australia's strong legal framework, continuous economic growth; high quality assets; availability of skilled labour; and proximity to Asia and relevant export and import markets.

4.45 However, since tax does—to varying degrees—influences domestic and international business investment decisions, it is important, wherever possible, for the Australian Government to ensure that its taxation policies support rather than hinder business investment.

4.46 Providing greater certainty in its tax policies and harmonising tax arrangements, where there is overlap between Commonwealth and state and territory taxes, must form part of the Australian Government's policy objectives.

Reducing the company tax rate

4.47 As a small, open economy that it a net importer of capital, it is imperative that Australia's company tax rate remains competitive to ensure the economy continues to grow.

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32 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 2.

33 Ms Kate Carnell AO, Ombudsman, ASBFEO, *Committee Hansard*, 7 August 2018, p. 2.

34 Mr Luke Aitken, Senior Manager, Policy, New South Wales Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

4.48 Australian businesses carry a heavier tax burden than many of its overseas competitors, which can discourage investment and the creation of jobs. In particular, Australia's relatively high company tax rate increases the rate of return required to make a business or new project commercially viable.

4.49 The committee takes the view that Australia's company income tax rate should be reduced to encourage business investment in Australia, particularly from highly mobile foreign direct investment. This will strengthen Australia's economic growth in the long-term, securing more jobs and providing stronger government revenues.

4.50 Reducing company tax rates for all businesses in Australia to 25 per cent by 2026-27 should continue to be a key priority for the Australian Government.

Recommendation 8

4.51 **The committee recommends that the Australian Government reduce the company tax rate in Australia to 25 per cent for all companies by 2026-27.**

Extending the instant asset write-off for SMEs

4.52 Since May 2015, the Australian Government has increased the threshold for instant asset write-offs from $1,000 to $20,000. This currently applies to businesses with aggregated annual turnover of less than $10 million.

4.53 The committee notes that this has been beneficial for small and medium enterprises (SMEs). This tax measure has provided SMEs with an opportunity to reinvest in their businesses, helping with vital cash flow and enabling them to replace or upgrade their assets. The committee also notes stakeholder concerns that unless extended again, the threshold will revert back to $1,000 on 1 July 2019.

4.54 Currently, individual assets valued over $20,000 are not eligible for the instant write-off and are deducted over time. However, multiple claims for assets under $20,000 are permitted. The committee notes evidence received that this restricts SMEs from making significant asset purchases that exceed $20,000, for example, new vehicle purchases, or agricultural and manufacturing equipment.

4.55 Providing businesses with greater certainty that a higher instant asset write-off threshold will be in place will enable SMEs to better plan for investment, innovation and growth.

Recommendation 9

4.56 **The committee recommends that the Australian Government set the instant asset write-off threshold at $25,000 for small and medium enterprises on an ongoing basis.**

Tax incentives encouraging innovation

4.57 Providing tax incentives for business is one of the key ways in which governments are encouraging businesses to innovate and grow.

4.58 The committee notes that measures like the Research and Development (R&D) Tax Incentive encourages companies to engage in R&D by providing tax offsets for eligible activities, and the early-stage investor tax offset encourages angel and high-net-worth investors to take on more risk and invest in early-stage companies.

4.59 Various National Innovation and Science Agenda initiatives are also valuable in supporting Australian businesses to better translate skills and innovative ideas into commercially viable products and services. The committee notes that government and private sector co-investment has also been a significant driver for business innovation.

5

Electricity: Price and reliability

5.1 Affordable and reliable energy is crucial for business viability and growth. In particular, the need to address high prices and reliability in the electricity sector has been a focus for the inquiry.

5.2 In discussion on the wider energy sector, the *Intergovernmental Review of Business Investment* (the Review) noted that:

> Affordable and reliable energy is crucial for investment decisions by small and large businesses across Australia as energy is a ubiquitous expense for all businesses and households. Resolution of uncertainty around energy policy is critical to build confidence in electricity affordability and reliability. Signals for new long-term generation investments require a nationally agreed and widely supported policy framework.[1]

5.3 Australia's manufacturing, mining and most other industry sectors rely on affordable and reliable energy. For emerging new technologies, such as electric vehicles and battery storage, the Department of Foreign Affairs and Trade (DFAT) and Australian Trade and Investment Commission (Austrade) noted that 'without appropriate energy policy settings, the emergence of these industries could stall.'[2]

5.4 The Business Council of Australia (BCA) submitted that the combination of rising energy costs and 'supply uncertainty flowing from inconsistent carbon emissions reduction polices are jeopardising existing business operations let alone new investments in Australia.'[3]

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1 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 2.

2 Department of Foreign Affairs and Trade (DFAT) and Australian Trade and Investment Commission (Austrade), *Submission 19*, p. 9.

3 Business Council of Australia (BCA), *Submission 29*, p. 6.

5.5 The Department of Industry, Innovation and Science acknowledged that energy prices are negatively impacting on the viability and competitiveness of industries, and on attracting new investment.[4]

Electricity affordability and reliability

5.6 The Australian Competition and Consumer Commission (ACCC) report *Restoring electricity affordability and Australia's competitive advantage* was released in July 2018. It found that the National Energy Market (NEM) was not operating in the best interests of consumers, and concluded that, in particular, reform was needed around competition and affordability.

5.7 In its report the ACCC noted that Australian electricity prices, gross margins and net margins are among the highest in the world.

5.8 The Institute of Public Affairs submitted that low cost and reliable energy was previously one of Australia's great competitive advantages. It attributed much of the escalation of electricity prices to public policy favouring renewable energy over coal.[5]

5.9 KPMG noted that part of the reason that countries like Canada are paying less for electricity is due to affordable energy, and they are making a transmission to a greater level of renewables. However, it emphasised that the core point is that Australia needs an orderly transition.[6]

Impact on businesses

5.10 The committee heard that high energy costs are negatively affecting businesses, putting a strain on profit margins and impeding their capacity for investment and growth, and in more extreme cases, threatening the viability of some businesses.

5.11 The Australian Chamber of Commerce and Industry (ACCI) identified increasing electricity costs as the number one issue for its members. It told the committee that:

> There's white-hot rage in our membership in the business community that we've got some of the most expensive electricity

4 Department of Industry, Innovation and Science, *Submission 24*, p. 7.

5 Institute of Public Affairs, *Submission 34*, p. 15.

6 Mr Adam Carr, Director, Economics and Industry Policy, Australian Chamber of Commerce and Industry (ACCI), *Committee Hansard*, 31 July 2018, p. 10.

> prices in the world. Why? I was really fascinated to hear from KPMG again that in Canada the cost is one-third of what it is here. That's terrible. Why are we doing that to ourselves?[7]

5.12 A number of examples of businesses being negatively affected by high electricity prices are provided in the ACCC's report for its retail electricity pricing inquiry. The committee has also received evidence of businesses negatively impacted by high electricity costs.

5.13 The Australian Dental Industry Association expressed similar concerns about high electricity prices, and provided the following feedback received from a dental supplies business:

> I would say the unreliability and increasing price of electricity are among the largest barriers to investing in our business. I've seen our energy overheads increase by 25% over the past 12 months. Worse still, last summer we experienced blackouts once or twice a month. On one occasion we lost power for three-quarters of a day which cost our business $20,000. This essentially wiped out the net benefit of the Government's $20,000 instant asset tax write-off which was supposed to help us invest and grow.[8]

5.14 In more extreme cases, the committee heard that some businesses have been forced to close. The Institute of Public Affairs stated that:

> …in June last year a family-run recycling business in Kilburn in Adelaide's inner north announced it was closing its business after 38 years of operation and putting 35 people out of work. The trigger was a spike in its monthly electricity bill from $80,000 to $180,000.[9]

5.15 Not only are energy prices acting as a disincentive for foreign investment, they could also be driving some Australian businesses to move their operations overseas.

5.16 The ACCCI commented that it has reached the point that a number of businesses are 'crunching the numbers as to whether they stay domestic or move abroad.'[10] It stated that:

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7 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 10.

8 Australian Dental Industry Association, *Submission 25*, p. 11.

9 Mr Daniel Wild, Research Fellow, Institute of Public Affairs, *Committee Hansard*, 1 August 2018, p. 43.

10 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

> …it's much easier for companies these days to relocate elsewhere. The costs of doing so aren't as marked now, so it is something we need to take seriously when a business says: 'Look, we're paying the highest electricity prices in the world. We can save X per cent if we go to Singapore or what have you and just export to Australia.'[11]

5.17 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) noted the case of an Australian plastics manufacturing company in Melbourne that found that due to high electricity costs it was no longer competitive with imports.

5.18 The ASBFEO noted that the company had been in Australia for 50 years and was keen to continue manufacturing domestically, but is now having to look at importing from China. It stated:

> Their comment to us is that they've got two choices: one is to close the doors—they had 35 employees—or, alternatively, they import. So they move their manufacturing operations to China and they become an importer. Those were the two options that they saw.[12]

5.19 The ACCI noted that network costs have been a significant component of high electricity prices. To address this, it proposed looking at the issue of competition in the electricity space. The ACCI endorsed the ACCC's recommendation in relation to price transparency and asked that all parliamentarians 'endorse the idea of price transparency—being able to look at a discount offer and be sure that it is a genuine discount.'[13]

5.20 The committee noted that over the course of 2018, wholesale gas prices have been coming down—due predominantly to government action around gas supply in the eastern and southern states—and that has significantly influenced electricity prices coming down.

5.21 In its retail electricity pricing inquiry report, the ACCC found that 'wholesale spot and futures prices are around 30 per cent lower than their 2017 peak'.[14]

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11 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

12 Ms Kate Carnell, Ombudsman, Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Committee Hansard*, 7 August 2018, p. 7.

13 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

14 ACCC, *Retail Electricity Pricing Inquiry – Final Report*, June 2018, p. xiv.

5.22 However, the ACCI commented that while it welcomed the reduction in wholesale electricity prices, it is 'nowhere near what we need to see to calm the concerns of business.'[15]

Regional challenges

5.23 While wholesale electricity prices have increased significantly across the NEM since 2012, Queensland and South Australia in particular have experienced rapid price increases, with 168 per cent in Queensland in 2017 and 178 per cent in South Australia. Townsville Enterprise Limited noted Queensland Productivity Commission findings that:

> In terms of competitive position, North Queensland has moved over the past five years from among the most cost effective electricity producers to among the most expensive. This has occurred in an environment where the Queensland market is oversupplied with generation capacity by around 30%.[16]

5.24 The rising electricity cost in Queensland in recent decades has been largely attributed to the state's network and distribution costs. The Queensland Government owns two-thirds of the state's generation capacity.

5.25 Townsville Enterprise Limited noted that North Queensland has a strong manufacturing and resource base, which has been highly dependent on energy. It submitted that electricity prices are having a crippling affect upon industry and the local economy in North Queensland.

5.26 Townsville Enterprise Limited commented that the region's location exacerbates access challenges, and described North Queensland as 'at the end of one of the world's longest extension cords in that we are not close to power generation.'[17]

5.27 In commenting on the ACCC's findings on retail electricity pricing, the Townsville Enterprise Limited stated that 'the region as a whole is very supportive of some of the recommendations that were defined in that

15 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 14.

16 Townsville Enterprise Limited, *Submission 27*, p. 3.

17 Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Limited, *Committee Hansard*, 22 August 2018, p. 7.

report.'[18] It also suggested that allowing Northern Queensland to generate more energy will help address energy concerns in the region.

5.28 An example from regional Victoria in the red meat production sector is of a lamb and mutton producer. Its electricity and gas costs rose 70 per cent in the first half of 2017, amounting to $1.1 million of additional costs over the course of the year. The Red Meat Advisory Council (RMAC) cautioned that if essential input costs like energy continue to grow, there is real danger of losing SME meat processors like this business, which would have a detrimental effect on regional economies.[19]

5.29 The Minerals Council of Australia (MCA) noted that some farming and mining operations, fishing and tourism operators did not even have access to on-grid electricity, with many remote communities and businesses using diesel as their only option for reliable power generation.[20]

Government policy

5.30 The Public Interest Advocacy Centre (PIAC) submitted that rather than perceiving regulation narrowly as simply a burden on business, it commented that regulation can play an important role in providing a framework of stability and certainty for business and consumers.

5.31 In particular, PIAC provided the energy market as an example of where efficient regulation is needed. It noted that the ACCC's report on the energy market concluded that 'ineffective regulation of monopoly and oligopoly businesses in the network and retail space has resulted in an increasingly dysfunctional status quo.'[21]

Energy generation

5.32 KPMG submitted that a well-designed National Energy Market (NEM) can help reduce barriers to business investment, among electricity generators, suppliers and clients. It noted that the emergence of new technology makes national cohesion in the market even more important.[22]

18 Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Limited, *Committee Hansard*, 22 August 2018, p. 7.

19 Red Meat Advisory Council (RMAC), *Submission 20*, p. 12.

20 Minerals Council of Australia (MCA), *Submission 17*, p. 15.

21 Mr Miyuru Ediriweera, Senior Policy Officer, Public Interest Advocacy Centre, *Committee Hansard*, 31 July 2018, p. 50.

22 KPMG, *Submission 21*, p. 22.

5.33 The MCA attributed the serious challenges in the NEM to removing dispatchable power— electricity which is available to a power grid system to service the needs of the market. This is usually supplied from generators which can be switched on or off as demand varies. It stated:

> Any policy approach should aim to reduce energy costs in Australia and retain a focus on securing a reliable, lowest-cost dispatchable energy supply that is available 24/7, while meeting emissions reduction targets. The MCA believes a technology neutral approach should be adopted for all low emissions energy sources where no one technology is favoured to the exclusion of others. High Efficiency, Low Emissions (HELE) coal technologies and nuclear energy should both be options for supplying electricity under Australia's future energy policies.[23]

5.34 In relation to the renewable energy sector, the Clean Energy Council submitted that since 2017 roughly $12 billion of renewable energy projects had reached financial close in Australia. It noted that their projects had created more than 6,500 jobs and reinvigorated regional communities across Australia. It also stated that the ‘new energy supply from those projects is expected to reduce the average power bill by hundreds of dollars a year during the next decade.’[24]

5.35 The ACCI noted that its members agreed that Australia needs to meet the Paris targets, but indicated that they were neutral on how this could be achieved ‘without crunching businesses and elevating electricity costs’. It commented that with expert guidance it is achievable; it is just the political will that is needed.[25]

Electricity price safety net and rule changes

5.36 Currently, small businesses could be paying up to $3,457 per year more than the cheapest market offer in some regions.

5.37 In October 2018, the Australian Government announced that the Australian Energy Regulator (AER) was starting work on a ‘price safety net’. The Australian Government has tasked the AER with introducing default electricity prices by 2019, with savings to be passed through to families and small businesses by 1 July 2019. The AER will develop:

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23 MCA, *Submission 17*, p. 28.

24 Clean Energy Council, *Submission 5*, p. 1.

25 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

- A maximum price for the default market offer to apply from 1 July 2019 for customers not subject to state-based price regulation.
- A mechanism for determining a reference bill amount for each network distribution region, from which headline discounts can be calculated.

5.38 In its media release, the Australian Government noted that the price safety net is consistent with ACCC's recommendations in the retail electricity pricing inquiry.[26] The Australian Government will also make changes to:

- require energy retailers to notify their customers when their discounts are about to finish or change
- allow customers to stop energy discounting practices that can leave customers worse off, and
- require gas and electricity retailers to notify customers of price changes at least five days before they take effect.

5.39 Complementing these changes is the Australian Energy Market Commission (AEMC) determination to address customer concerns about inaccurate estimated meter readings and bills. From 1 February 2019, retailers will be required to advise customers that they can provide their own meter reading instead of accepting a retailer's estimate.

5.40 The AEMC has recommended introducing civil penalty provisions if retailers do not comply with the new obligations.

Other energy reforms

5.41 The Australian Government has also announced the following additional measures aimed at bringing energy prices down and increasing reliability:

- Stopping price gouging by the big energy companies. This includes banning sneaky late payment penalties and making energy retailers pass on savings in wholesale prices to customers. It will increase regulator's power to crack down on dodgy, anti-competitive practices – through fines, penalties, enforceable undertakings, structural separation and divestiture. We have already seen prices come down in Queensland, South Australia and New South Wales on 1 July 2018, and we have directed the Australian Competition and Consumer Commission (ACCC) to monitor electricity prices until 2025 to ensure prices are fairer for consumers.

26 The Australian Government indicated it will adopt ACCC recommendations 30, 32, 49 and 50.

- Backing investment in new power generators to improve competition. Underwriting new electricity generation will attract investment in the electricity market, increasing supply and reducing wholesale electricity prices. The Government will consult on the Underwriting New Generation Investments program, with submissions open until 9 November 2018. Based on feedback from the consultation, the Government will release initial program guidelines and invite proponents to nominate projects through an expression of interest process open from December 2018 to January 2019.
- Supporting reliable power by requiring energy companies to sign contracts guaranteeing enough energy to meet demand. We will work with state and territory governments through the COAG [Council of Australian Governments] Energy Council to ensure these contracts are signed.[27]

5.42 The Australian Government's Underwriting New Generation Investments program is focused on attracting new investment in firm or firmed generation capacity. The aim is to increase competition and reduce electricity prices, and to improve reliability and security by increasing the level of firm capacity in the system. In the consultation paper on the program, the Australian Government indicated that its intention is 'to target projects that would have occurred in the absence of the market failure identified by the ACCC and that could maximise impact on competition and price.'[28]

5.43 It is anticipated that following consultation, the Australian Government will release initial guidelines for the Underwriting New Generation Investments program and invite project nominations during an expression of interest period from December 2018 and January 2019.

5.44 The Australian Government is also developing legislation to implement a strong regime for monitoring electricity prices. The regime will include:

- empowering the ACCC to recommend a range of enforcement remedies
- empowering the Treasurer to order the divestiture of assets on advice from the ACCC

27 The Hon Scott Morrison MP, Prime Minister, the Hon Josh Frydenberg MP, Treasurer, and the Hon Angus Taylor MP, Minister for Energy, 'A Fair Deal on Energy', *Media Release*, 23 October 2018, <https://www.pm.gov.au/media/fair-deal-energy>, accessed 24 October 2018.

28 Department of the Energy and Environment, *Underwriting New Generation Investments: Public Consultation Paper*, October 2018, p. 5.

- supporting the COAG Energy Council agenda through Commonwealth legislation if required.[29]

5.45 The Australian Government has also indicated that it will progress measures through the COAG Energy Council to:

- introduce a market cap on generation ownership to prevent further concentration in the market and increase competition
- increase transparency in the wholesale contract market to make it easier for new entrants and smaller retailers to compete effectively in the retail market
- introduce higher penalties for breaches of the National Electricity Law and related laws, of up to $10 million
- increase the AER's powers to investigate market manipulation and impose appropriate remedies.[30]

5.46 On 5 December 2018, the Australian Government introduced the Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018. It proposes to amend the *Competition and Consumer Act 2010* to define energy market misconduct and provide a series of penalties and remedies for companies engaging in prohibited conduct.

5.47 On 17 December 2018, the Minister for Energy, the Hon Angus Taylor MP, announced the Business Energy Advice Program to assist small businesses save on energy costs. The $11.6 million program will 'deliver tailored advice help small businesses find the best energy deal and identify opportunities for them to use energy more efficiently.'[31] It opens for tender in the first quarter of 2019.

29 The Hon Scott Morrison MP, Prime Minister, the Hon Josh Frydenberg MP, Treasurer, and the Hon Angus Taylor MP, Minister for Energy, 'A Fair Deal on Energy', *Media Release*, 23 October 2018, <https://www.pm.gov.au/media/fair-deal-energy>, accessed 24 October 2018.

30 Department of the Environment and Energy, *Stopping the price gouging*, Fact Sheet, October 2018, p. 1, < https://www.energy.gov.au/publications/stopping-price-gouging>, accessed 26 October 2018.

31 Department of the Environment and Energy, 'Help on the way for small businesses to save on energy', *Media release*, 17 December 2018, <http://www.environment.gov.au/minister/taylor/media-releases/mr20181217.html>, accessed 18 December 2018.

Conclusions and recommendation

5.48 The committee heard that high energy costs are negatively affecting businesses; putting a strain on profit margins and impeding their capacity for investment and growth. Some businesses are even considering moving their operations overseas as a more cost effective option, or in extreme cases, it has contributed to some businesses closing.

5.49 It appears that high electricity costs are having a disproportionate impact on small and medium enterprises and businesses in regional and remote areas.

5.50 While electricity is a component of wider energy supply challenges, and is only one of a number of factors influencing business investment in Australia, it is important to address the issue of electricity affordability and reliability to better support Australian businesses.

5.51 The committee notes that the Australian Government has taken a targeted approach to reducing high electricity prices and improving reliability. It has adopted a number of initiatives consistent with the ACCC's recommendations in the report on retail electricity pricing, which are aimed at bringing down prices and restoring consumer confidence and Australia's competitive advantage.

5.52 The initiatives will include: introducing a price safety net (default electricity prices); increased monitoring of electricity prices and cracking down on prices gouging by energy companies; underwriting new electricity generation to attract investment in the electricity market; and introducing retailer reliability obligations.

5.53 The committee also notes the measures the Australian Government has flagged to progress through the COAG Energy Council. This is a significant opportunity for the Commonwealth and state and territory governments to cooperate on this issue and deliver outcomes to enhance affordability and reliability, in the best interests of electricity consumers across Australia.

Recommendation 10

5.54 **The committee recommends that the Australian Government continues its focus on improving reliability and price in electricity.**

6

Other issues

Export Market Development Grants

6.1 The Australian Government provides financial assistance to small and medium export-ready business through the Export Market Development Grants (EMDG) scheme. The EMDG scheme, administered by Austrade:

- encourages small- and medium-sized Australian businesses to develop export markets
- reimburses up to 50 per cent of eligible export promotion expenses above $5,000 provided that the total expenses are at least $15,000
- provides up to eight grants to each eligible applicant.[1]

6.2 The annual EMDG scheme budget is $137.9 million, with total grants of $131.6 million paid in 2017-18 to 3,705 businesses.

6.3 In response to committee questioning on the effectiveness of the EMDG scheme, DFAT and Austrade noted that the demand for the grant has been growing in recent years. They noted that the most recent client satisfaction survey showed that '95 per cent of respondents report the receipt of an EMDG grant enabled their business to become a more sustainable exporter', and that '54 per cent of respondents reported the receipt of a grant enabled them to grow their international revenue.'[2]

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1 Australian Trade and Investment Commission (Austrade), *Export Market Development Grants*, <https://www.austrade.gov.au/Australian/Export/Export-Grants/About/what-is-emdg>, accessed 25 March 2019.

2 Department of Foreign Affairs and Trade (DFAT) and Austrade, *Submission 19.1*, p. 7.

6.4 When asked how the EMDG scheme compares to similar international schemes, DFAT and Austrade responded that export assistance can vary considerably, and that the EMDG scheme 'is one of the few national government schemes that provides broad based assistance for businesses promoting their goods and services for export.'[3]

6.5 In its *Australia 2030: Prosperity through Innovation* report, the Office of Innovation Science Australia recommended encouraging the growth of export firms, particularly young high-growth firms, by increasing EMDG scheme funding and by expanding and making better use of trade agreements.[4]

6.6 The committee notes that in the recent report *From little things big things grow: Supporting Australian SMEs go global*, the Joint Standing Committee on Foreign Affairs, Defence and Trade discussed stakeholder concerns about shortfalls in the EMDG scheme. This included evidence received that 'due to a lack of funding for the EMDG scheme compared to applicants, the "certainty of rebate is no longer present"', and that it 'is a very tightly run scheme and nothing like the R&D scheme where applications may fill out a tax return and get money back from their tax outlay'. A submitter called for a $35 million increase to the budget to 'restore certainty of rebate'.[5]

6.7 In its report, the Joint Standing Committee on Foreign Affairs, Defence and Trade recommended that the Australian Government review the resourcing of agencies and programs assisting Australian small and medium enterprises (SMEs) trade internally, including:

- Assessing the current funding arrangements for the Export Market Development Grant (EMDG) scheme to ensure it meets the growing demand and maintains the real value of individual grants under the EMDG scheme, including investigating strategies to better target the scheme towards high-growth SMEs; and
- Evaluating the potential for using improved digital technology to reduce the administrative burden of the Export Market Development Grants scheme for applicants.[6]

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3 DFAT and Austrade, *Submission 19.1*, p. 7.

4 Innovation and Science Australia, Australia 2030 Prosperity through Innovation, November 2017, p. 38, Strategic Opportunity 2.2.

5 Joint Standing Committee on Foreign Affairs, Defence and Trade, *From little things big things grow: Supporting Australian SMEs go global*, February 2019, p. 205.

6 Joint Standing Committee on Foreign Affairs, Defence and Trade, *From little things big things grow: Supporting Australian SMEs go global*, February 2019, p. 213, Recommendation 5.

Infrastructure

Improved coordination

6.8 Efficient infrastructure was identified—alongside competitive tax settings, competitive and reliable energy, efficient regulation, and a productive and skilled workforce—as a key priority for business.

6.9 While the opportunities and challenges with investing in infrastructure is an issue in its own right, the committee's discussion focuses on the role of infrastructure in supporting business operations. Infrastructure is crucial for business to operate efficiently and effectively. Transport and communications infrastructure, in particular, emerged in evidence to the committee as areas of concern for businesses.

6.10 The committee heard that the retail industry relies heavily on the efficient operation of its supply chains. The Australian Retailers Association (ARA) commented that 'costs to the economy from lost productivity and delays in the provision of goods and services are unnecessary and troublesome.'[7]

6.11 A number of submitters supported a more coordinated and holistic approach to planning and infrastructure.

6.12 For governments to achieve greater coordination, the Australian Chamber of Commerce and Industry (ACCI) proposed that the Australian Government take the lead in significant areas of planning and infrastructure. Whether through the Council of Australian Governments (COAG) or by other means, it called for 'a top-down holistic approach to infrastructure'.[8] It stated:

> Get together everyone: the feds, the states and the local governments. Let's have a discussion about what kind of Australia we want and how we're going to distribute our population most efficiently using the infrastructure that we've got in a way that doesn't lead to a lot of these problems that we've seen to date with housing affordability et cetera. So that's what our members want to see. That's what business really wants to see. Elevate this issue.[9]

7 Australian Retailers Association (ARA), *Submission 15*, p. 9.

8 Mr Adam Carr, Director, Economics and Industry Policy, Australian Chamber of Commerce and Industry (ACCI), *Committee Hansard*, 31 July 2018, p. 11.

9 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 11.

6.13 The Department of Prime Minister and Cabinet provides COAG with secretariat support. The committee noted KPMG's comment that there is a question as to whether 'we possibly need a COAG with a permanent secretariat rather than having one that has an agenda which is one of the Prime Minister of the day.'[10]

6.14 Specific Councils within COAG enable it to focus on key national priorities, and include issues of: federal financial relations; disability reform; transport and infrastructure; energy; industry and skills; education; health and matters for consideration by Attorneys-General. Secretariat arrangements differ between COAG councils. For example, the secretariat for the Transport and Infrastructure Council is funded by and located within the Commonwealth Department of Infrastructure and Regional Development.

6.15 KMPG argued that the political arrangements are lacking when it comes to dealing with long-term issues, like infrastructure, health and education, and noted that it 'would have recommended that COAG should have a permanent secretariat and that the agenda should be partly set by the premiers and partly set by the Prime Minister of the day.'[11] KPMG stated:

> …we've got some long-term problems that we need to think about, not only health and education but a whole array of things, including infrastructure. We don't have a political infrastructure that looks at these things in the long term on a federal basis…
> I think our Federation is fantastic. I'm a strong supporter of horizontal fiscal equity, and I think we do a much better job of this than the US, in particular, but also Canada. But we need something else to help us solve longer term problems.[12]

6.16 The ACCI indicated that it saw merit in KMPG's idea for a permanent secretariat for COAG and stated:

> Maybe that's worth exploring when you look at some of the key problems around planning and infrastructure failures which have led to housing affordability problems.[13]

10 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 1.

11 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 5.

12 Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre, KPMG, *Committee Hansard*, 31 July 2018, p. 5.

13 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 10.

6.17 In relation to the resources and energy sector, DFAT and Austrade acknowledged that while the sector is strong, 'the availability of facilitating infrastructure, such as pipelines, can affect the competitiveness of Australia as an investment destination'.[14] The Australian Petroleum Production and Exploration Association Limited (APPEA) commented that:

> Given Australia's vast size, remote terrain and distance from markets (both domestic and export), many projects cannot individually underpin the infrastructure required to undertake high cost exploration and/or production activities. This presents challenges for both industry and governments.[15]

6.18 Streamlining approval and compliance processes in relation to public infrastructure requirements was suggested as a way to reduce the complexity and cost associated with public infrastructure projects.[16]

Transport and logistics

6.19 Effective road infrastructure and management is crucial for business operations. Submitters raised concerns about the efficiency and effectiveness of Australia's transport and logistics arrangements.

6.20 The Australian Trucking Association (ATA) made a number of recommendations to improve Australia's freight capabilities in relation to road transport. It stated that:

> …delivering more of the same policy outcomes will not deliver the road freight productivity improvements required to enable increased economic output, and improving safety, congestion and environmental outcomes. There is a clear and pressing need for an enhanced road freight productivity agenda.
>
> Increased costs, regulation, and slower productivity growth for road freight is ultimately a burden on supply chains for other economic sectors, creating a barrier and disincentive on potential business investment.[17]

6.21 The ATA recommended that the Heavy Vehicle Road Reform must include road funding reform, and that the 'Australian Government should

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14 DFAT and Austrade, *Submission 19*, p. 12.

15 Australian Petroleum Production and Exploration Association (APPEA), *Submission 28*, p. 18.

16 Business Council of Australia, *Submission 28*, p. 8 and Consult Australia, *Submission 31*, p. 4.

17 Australian Trucking Association, *Submission 7*, p. 6.

increase the priority of upgrades to the regional and remote road network to better enable business investment, opportunity and connectivity.'[18]

6.22 Evidence to the committee reflected the reliability of road infrastructure in regional areas as a particular concern. The Bland Shire Council provided an example of a six week road closure in 2016 of the West Wyalong and Forbes portion of the New South Wales Newell Highway due to flooding. The Bland Shire Council claimed that the conservative cost for this six week closure was $153 million, and argued that while the Newell Highway is New South Wales' and Australia's third largest freight corridor and premier inland touring route, only band aid fixes had been applied rather than properly investing in this important piece of road infrastructure. It noted that closures due to flooding had occurred periodically over a number of years.[19]

6.23 The Red Meat Advisory Council (RMAC) also highlighted the importance of road investment and infrastructure. It recommended reinstating the Strategic Regional Fund to help ensure strong road transport exists around agribusiness.[20]

6.24 More broadly than roads, Master Builders Australia commended Commonwealth and state government commitments to increase infrastructure spending, but also called for a more extensive role for the private sector in supplying infrastructure. Master Builders recommended improving the infrastructure financing by:

- public sector – increased direct financing of public economic and social infrastructure, with incentives for state and territory governments to use funds from the sale of existing assets over debt financing;
- private sector – identifying and then actioning market-based opportunities, for example, in matching the demand-side (infrastructure providers) with the supply-side (financial institutions and other interested investors); and
- look into alternate PPP [public private partnership] financing relationships to encourage private sector engagement. For example, through better value capture models, transit orientated development, or better land use strategies. City Deals are ideally placed to deliver new approaches because formal agreements are established between the levels of

18 Australian Trucking Association, *Submission 7*, p. 14.

19 Bland Shire Council, *Submission 14*, p. 17.

20 Red Meat Advisory Council, *Submission 20*, p. 6.

> government who collectively can deliver better outcomes and test new mechanisms for planning and investment.[21]

Communications

6.25 Reliable and fast broadband services are crucial for most businesses. However, the committee heard that some businesses, particularly in regional and remote areas, are receiving less than optimal access to mobile coverage and internet broadband services.

6.26 This poses challenges not only for current operations but for future growth. Commpete submitted that:

> Access to reliable, next generation broadband is essential to the future prosperity of the nation. Businesses across almost all industries require broadband to be able to transition to a digital economy, and countries that could not offer ubiquitous access to genuine broadband would see underinvestment in all sectors.[22]

6.27 The National Broadband Network's (NBN) stated objective is to ensure all Australians have access to fast broadband as soon as possible, at affordable prices, and at least cost to tax payers. It is wholly owned by the Australian Government and operated as a Government Business Enterprise. It provides wholesale broadband to retail providers, who then supply customers with digital services.

6.28 However, some submitters expressed frustration with the NBN rollout and contended that the NBN has not met its objectives in a number of areas.

6.29 The New South Wales (NSW) Business Chamber noted that its 2017 NBN and Telecommunications Survey found that delays and disruptions to the NBN roll out were costing businesses in the state, on average, more than $9,000. The survey findings included that:

- 39% of businesses reported having to wait more than 4 weeks for their service to be fully operational, with some businesses reporting no internet or phone availability at all during this period.
- 45% were dissatisfied with the NBN service, and complained of it being inferior to its original supply such as ADSL2.
- 42% of businesses reported NBN as being unreliable.

21 Master Builders Australia, *Submission 18*, p. 9.

22 Commpete, *Submission 10*, p. 1.

- Inadequate information about necessary equipment (EFTPOS machines, modem/routers) upgrades to ensure compatibility with the NBN.
- Some businesses were disconnected inadvertently due to NBN work despite not being an NBN supplied customer.[23]

6.30 Further, the NSW Business Chamber observed that while there have been technology challenges, 'the lack of accountability, responsibility and coordination between retailers and wholesalers in delivering broadband services to consumers were some of the most cited issues with the rollout.'[24]

6.31 To address these concerns, the NSW Business Chamber recommended a national broadband service guarantee (NBSG). It would require wholesalers, retail service providers, and contractors and installers to cooperate to deliver agreed service standards. The NBSG would focus on ensuring reliability, quality and timely fault rectification to the agreed upon standards, and failing to do so would trigger compensation.[25]

6.32 The committee asked whether Australian Competition and Consumer Commission (ACCC) action and penalties again providers—for missed appointments and misleading and deceptive conduct—was having a positive impact on customer outcomes. The NSW Business Chamber agreed that it has seen 'some positives', and that some retailers are changing as a result of the ACCC's action.[26]

6.33 The committee also heard that buyer groups are one way in which businesses are cooperating to gain access to higher speed plans, where there is limited or less reliable broadband access. As the end use price flows through to customers, these 'broadband buyers groups may be a solution for some businesses to both accelerate the roll out of 100MBs broadband and at a fair price.' [27]

6.34 However, it noted that these enterprise level arrangements are in their infancy, and may benefit from some guidance from the ACCC on parties' responsibilities.[28]

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23 New South Wales Business Chamber, *Submission 3*, p. 3.

24 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

25 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 36.

26 Mr Luke Aitken, Senior Manager, Policy, NSW Business Chamber, *Committee Hansard*, 31 July 2018, p. 37.

27 NSW Business Chamber, *Submission 3*, p. 6.

28 NSW Business Chamber, *Submission 3*, p. 6.

6.35 Submitters stressed the importance of access to reliable and affordable mobile phone coverage and broadband services for modern and innovative farm practices.

6.36 The Bland Shire Council submitted that improved services have the potential to revolutionise agriculture in Australia:

> The use of information technology has evolved from basic GPS to precision farming. The next frontier is 'big data'—or data-enabled agriculture, which will provide information to assist better decision making through real time delivery of relevant and specific knowledge. The potential for productivity gains through increasing yields, reducing costs and reducing agricultural risks is progressing through initiatives currently underway. These include Sense-T in Tasmania and the GrainGrowers ProductionWise programme. Farm machinery companies have developed applications that not only warn farmers of the need for maintenance, but also use data collected to facilitate real time benchmarking, further driving productivity gains.[29]

6.37 The Bland Shire Council told the committee that a limited or lack of mobile coverage could also hinder attracting business investment in regional areas. It noted that when seeking to attract investment in regional NSW, investors had been surprised that the certain areas did not get mobile coverage, for example with some parts of the Newell Highway without coverage.

6.38 To address these access challenges, the Australian Government's Mobile Black Spot Program aims to improve mobile phone coverage and competition in regional and remote Australia. Under the program the Government is investing in telecommunications infrastructure, and co-contributions are provided by from state and local governments, mobile network operators (Optus, Telstra and Vodafone), businesses and local communities.

6.39 When questioned on NBN coverage and performance in the Bland Shire region, the Bland Shire Council responded that:

> Different businesses give me different feedback. I think that's due to the level of expertise of the businesses. There's one business, a sports business called Seek Fitness, that's totally on the internet. They control their lighting, music, access and payment through NBN, and they swear by it. Other businesses who are not au fait

29 Bland Shire Council, *Submission 14*, p. 18.

> with IT and technology are struggling. The other thing which affects us in regional areas is the lack of services available. West Wyalong doesn't have a Telstra shop or any IT professionals, so they have to bring them in. If something does happen, it affects their businesses.[30]

Broadband competition issues

6.40 It is arguable that aspects of poor broadband experiences for customers can be attributed to the lack of competition. Competition in retail telecommunications markets has not been as strong in Australia as in other developed nations.

6.41 In Australia's NBN, the top three providers (Telstra, Optus and TPG) have 90 per cent market share, with the other around 500 communication companies sharing the remaining 10 per cent of the market.[31]

6.42 In response to questioning from the committee, Commpete indicated that the reduction a few years ago of the key providers from four to three—with TPG taking over iinet—has affected the market dynamic. It also noted that while there is customer shifting, it is usually between the top three or four providers, with limited impact on overall market share.[32]

6.43 One of the NBN's goals was to level the playing field in the Australian communications industry, and so enhance competition and provide customers with greater choice. By acting as a wholesaler to other retailers, it removes the barrier of the high capital cost of retailers having to build an alternative access network if they want to enter the broadband market.

6.44 Commpete noted that at the outset of the NBN rollout, analysts had expected the market share of the biggest retailer Telstra to fall from around 50 per cent to around 30 per cent, with the market share of the non-major retailers combined to double from around 15 per cent to 30 per cent. However, Commpete observed that according to the ACCC's recent Communications Market Study Telstra still has 50 per cent market share, which suggests that by this measure the NBN has yet to make an impact on competition.[33]

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30 Mr Jeffrey Stien, Senior Economic Development and Tourism Adviser, Bland Shire Council, *Committee Hansard*, 12 September 2018, p. 3.

31 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 12.

32 Ms David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, pp. 15-16.

33 Commpete, *Submission 10*, p. 2.

6.45 Commpete argued that ‘some of the ways that NBN has operated have betrayed a lack of focus on what it was trying to achieve in terms of competitive outcomes.’[34] For example, it identified NBN’s complex pricing structures and NBN’s propensity to ‘make changes to the way it operates at very short notice’ as hindering new entrants to the market, in particular smaller operators.[35]

6.46 In relation to what Commpete viewed as unnecessary complexity, it noted that retailers buying services from NBN must enter into a Wholesale Broadband Agreement comprising about 720 pages. Commpete commented that:

> …it's completely open for NBN to reconsider what it's trying to achieve to look at that wholesale agreement and say, 'That's too hard for a small player to sign onto. We can reduce that to 10 pages and we can have a clause in there that says that, in the event that there's any misunderstanding or disagreement, the two parties will agree to let, for example, the ACCC adjudicate'. I don't think the parliament needs to be involved. Maybe the government as a shareholder can say to NBN, 'Think again'.[36]

6.47 Commpete proposed five initiatives for getting the NBN back on track towards achieving the original goal of building ‘a new, future-proof access network, completely independent of retail markets, which would allow challengers and new entrants to focus their investment in competitive activities.’[37] It outlined the initiatives for the committee:

> The first one is requiring a competition impact statement accompanying all proposed policy and regulation in communications. The others are a recommitment to a separated wholesale-only NBN selling on a non-discriminatory basis; to create a KPI for the NBN CEO to achieve a 30 per cent market share for his or her RSP customers outside the big three retailers; a write-down of the value of NBN to allow it to reset wholesale prices; and, lastly, to create a right of access principle in mobile markets, which are currently unregulated.[38]

6.48 In relation to the proposed competition impact statement, Commpete suggested that it would help to better address competition and consumer

34 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, p. 11.

35 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, p. 11.

36 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, pp. 11-12.

37 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 9.

38 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 9.

experience issues. Commpete noted that now halfway through the NBN roll-out there has already been 'a lot of the regulations, new policies and reporting are all around consumer experience.'[39] However, it cautioned that policy makers need to be mindful that 'these regulations do create costs that disproportionally impact on challengers.'[40]

6.49 As an alternative to additional regulation aimed at improving NBN customer outcomes, Commpete contended that a customer impact statement would be more effective in achieving this aim. It recommended that:

> Regulators and policymakers should be required to assess the impact of competition and their actions by publishing a competition impact statement when proposing new measures. That would require them to look at different approaches to achieve the same desired outcome and the relative impact on competition for each alternative.[41]

6.50 When questioned on what the second initiative—recommitting to a separated wholesale-only NBN—would involve, Commpete clarified that it is simply a recommitment to the existing requirement for the NBN to operate as a structurally separated wholesale-only provider. Commpete suggested that this recommitment would signal to investors that NBN is not going to become a retailer or be purchased by a retailer. It stated that 'while there is any expectation that that may be happening, it starts to affect other people's investment plans.'[42]

Supplier payment times

Impacts of delayed payment times

6.51 Late payment times, and extended payment terms (beyond the usual industry standard) by large suppliers is an area of concern for small and medium enterprises (SMEs), as it can negatively impact these businesses' cash flow. While extended payment terms affect all business, the impact tends to be disproportionate on SMEs, especially those operating on already tight margins.

39 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 12.
40 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 13.
41 Ms Michelle Lim, Chairperson, Commpete, *Committee Hansard*, 17 October 2018, p. 12.
42 Mr David Forman, Public Officer, Commpete, *Committee Hansard*, 17 October 2018, p. 11.

6.52 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) described late payments as a ‘perennial problem’ for Australian businesses. In its April 2017 report *Payment Times and Practices Inquiry – Final Report*, the ASBFEO stated that:

> The growing trend for extended payment times impacts the economy in two ways. Firstly, it slows down the flow of cash through supply chains which limits the growth of businesses as they have more capital tied up in financing their operations and secondly it raises costs for businesses which are financing longer trade credit to their customers.
>
> When a business experiencing extended payment times also experiences late payments it will stress the business further with significant ramifications for the solvency of the business.[43]

6.53 The committee heard that for SMEs late payments are more than just a source of headaches they can be ‘the difference between a business thriving and becoming insolvent.’[44] Late payments can impact SMEs in the following ways:

- emotional toll on owners
- impeded cash follow
- locked-up capital
- additional financial and administrative costs
- diminished investment potential
- hampered market competitiveness
- reduced confidence.[45]

6.54 As many businesses cannot pass extended trading terms on, for example they still need to pay their staff on a weekly or fortnight basis and creditors within 30 days, they cut back in other areas, such as staff training, maintenance and growth activities.

6.55 Further, many SMEs are having to source outside funding to address their cash flow difficulties and keep the business going. The Resource Industry Network’s survey of regional businesses found that:

> Almost half of respondents have had to source alternate bridging finance to mitigate the impact of the extended trading terms and almost three quarters of respondents nominated that the extended

43 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Payment Times and Practices Inquiry – Final Report*, April 2017, p. 5.

44 Bland Shire Council, *Submission 14*, p. 13.

45 Bland Shire Council, *Submission 14*, p. 14.

> trading terms have had a material impact on their organisation's ability to deliver goods and services in some way.[46]

6.56 Beyond the impact on the business, the effects of late payments can also take a personal financial and emotional toll on SME owners. The committee heard that 35 per cent of business said late payments have affected their personal finances, including hindering their ability to pay rent and power bills. Fifty-two per cent of SME owners also said it had impacted on their stress and anxiety levels.[47]

6.57 As the trucking industry is comprised of mainly small businesses and is characterised by tight margins, businesses in this industry are vulnerable to adverse changes in their payment terms. These small businesses typically incur the majority of their costs—such as wages, fuel, tyres and insurance—before they can bill their customers. They also have limited capacity to negotiate with large companies when it comes to payment terms.

6.58 To address the payment terms issues affecting small trucking businesses, the Australia Trucking Association (ATA) recommended that the Australian Government implement a mandatory payments code for the trucking industry under Part IVB of the Competition and Consumer Act. Further, it noted that the payment terms should include special rules covering receipt created invoices to prevent customers from delaying the creating of these invoices to avoid triggering the 30 day period.[48]

Large company payment practices

6.59 The committee heard that research indicated that large companies (characterised by 500 or more employees) are 'often the slowest payers of all businesses.'[49] The Bland Shire Council noted findings that:

> Many [large companies] enact an outstanding invoice drift up to 58 days on average. Such delays can compromise or even cripple SMEs and make it even harder to provide reliable supply unless SMEs concentrate their efforts on that clients more intently (exposing the SME to concentration risk).[50]

46 Resource Industry Network, *Submission 32*, p. 1.
47 Bland Shire Council, *Submission 14*, pp. 13-14.
48 Australian Trucking Association, *Submission 7*, p. 4.
49 Bland Shire Council, *Submission 14*, p. 13.
50 Bland Shire Council, *Submission 14*, p. 13.

6.60 The committee noted evidence to the inquiry that extended payment terms featured in the mining and resources sector, with extended payment terms imposed during a pullback in commodity prices at the time. SME stakeholders submitted that despite the sector recovery, extended payment terms have persisted.

6.61 The Resource Industry Network, representing regional businesses that supply to mining operations, argued that if this continues it will lead to 'fewer suppliers in the market, meaning higher prices, less competition, reduced capacity and the burden of R&D will fall entirely back to resource houses.'[51]

6.62 The Resource Industry Network advocated for mine operators to revert back to 30 day payment terms. In its survey of regional businesses 'respondents noted that even in the case of 60 day payment terms there were delays with invoices being approved which in some cases extend payment to more than 100 days.'[52] Respondents also noted that 75 to 100 per cent of their revenue was on extended trading terms.

6.63 The Resource Industry Network commissioned an economic analysis of the impacts of extended payment terms on SMEs that work with major mining companies in the Mackay region. It found that the extended payment terms are 'creating real adverse impacts for many businesses in the supply chains of large mining companies in Queensland, particularly in the Mackay and Central Queensland regions.'[53] The report stated that:

> If payment terms were restored to thirty (30) days, an additional 250 jobs could be generated in these regions [Mackay and Fitzroy] in firms directly impacted by extended payment terms. Taking into account flow-on effects, this would be associated with a total of 380 additional jobs, an improvement in wages of around $150 million over five years and a corresponding increase in gross regional product of around $250 million over five years at the same time.[54]

6.64 Woodside Energy observed that it is in its own interests to maintain long-term beneficial relationships with local businesses and the communities in which it operates. It noted that the company's standard payment terms

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51 Resource Industry Network, *Submission 32*, p. 2.

52 Resource Industry Network, *Submission 32*, p. 1.

53 Resource Industry Network, *Economic Analysis of Impacts of Extended Payment Terms*, Prepared by Lytton Advisory, August 2018, p. 22.

54 Resource Industry Network, *Economic Analysis of Impacts of Extended Payment Terms*, Prepared by Lytton Advisory, August 2018, p. 2.

have remained unchanged throughout economic downturns, and that it has the flexibility to reduce payment times to 14 days under certain circumstances, such as payments for Indigenous businesses.[55]

Government policy and changes

6.65 In its April 2017 report on its inquiry into payment times and practices, the ASBFEO concluded that 'government has a role as first mover to reverse the trend' of extended payment times.[56]

6.66 The ASBFEO told the committee that it continues to recommend legislation that sets maximum payment times for business to business transactions, and noted that 'certainty of cash flow provides confidence for a business to engage more employees and invest in growth.'[57] In its report, the ASBFEO made ten recommendations:

> Six of the recommendations seek to maximise governments' role as payment leaders, three of the recommendations seeks the Commonwealth Government's agreement to mandate payment times and practices into industry codes and to legislate business-to-business payment times and practices. The final recommendation asks for governments to encourage the adoption of technology solutions to assist business to streamline administrative tasks and facilitate payment practices.[58]

6.67 In its response to the ASBFEO's report, the Australian Government noted the recommendations on government procurement (2, 3, 5, and 7) and on supplier payment culture (7, 8 and 9). However, it did not support Recommendation 6, that the Australian Government procure from businesses which have supply chain payment times and practices equal to or better than its practices.

6.68 It also commented that limiting the number of businesses from which the Commonwealth can procure risks undermining the Commonwealth's capacity to achieve value for money.

6.69 Further, it stated that this would introduce an additional regulatory burden of verification requirements to bid for Government tenders, which would disproportionately affect SMEs.

55 Woodside Energy Limited, *Submission 16*, Attachment 2, p. 2.

56 Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Payment Times and Practices Inquiry – Final Report*, April 2017, p. 5.

57 ASBFEO, *Submission 30*, p. 2.

58 The Treasury, *Payment times and practices: Government response to the Australian Small Business and Family Enterprise Ombudsman Inquiry*, November 2017, p. 2.

6.70 The Australian Government did support ASBFEO's Recommendations 1 and 4, with amendments.

6.71 Recommendation 1 in the ASBFEO's report was for the Australian Government to adopt a 15 business day payment time by July 2018, and that all levels of government should consider adopting this.

6.72 On 22 November 2017, the Australian Government announced that it will be required to pay invoices for contracts worth up to $1 million within 20 calendar days (equivalent to 15 business days); a reduction from the current 30 day policy. This will apply from July 2019.[59] In its response to the ASBFEO's report, the Government stated that this 'will capture approximately 95 per cent of procurement contracts entered into by the Commonwealth'.[60]

6.73 The ASBFEO's Recommendation 4 was for the Australian Government to publish its payment times and policies, and for all its agencies and entities, with performance against best practice benchmarks. It recommended that all levels of government consider adopting this approach.

6.74 Since 2002 the Australian Government has been conducting a survey, on a voluntary basis, measuring compliance with Pay On-Time policies that applied in a given year. Sixty-eight agencies participated in the 2016-17 survey, which found that responding agencies were paying on average 95.9 per cent of contracts valued under $1 million on time within 30 days.

6.75 However, the Australian Government acknowledged that the level of participation in the voluntary survey varied from year to year. In its response to the ASBFEO's recommendation on performance reporting, the Australian Government committed to:

> …increase the transparency and accountability of agencies in complying with the Supplier Pay On-Time or Pay Interest Policy by mandating that all NCCEs [non-corporate Commonwealth entities] report payment performance against the stated policy, which will include a breakdown on the proportion of invoices paid within 20 and 30 days. While all agencies will be invited and encouraged to participate in the next survey, mandatory reporting

59 Senator the Hon Mathias Cormann, Minister for Finance, the Hon Malcolm Turnbull MP, Prime Minister, and the Hon Michael McCormack MP, Minister for Small Business, 'Delivering Faster Payments for Small Business', *Joint media release*, 22 November 2017, <https://www.financeminister.gov.au/media-release/2017/11/22/delivering-faster-payments-small-business>, accessed 19 October 2018.

60 The Treasury, *Payment times and practices: Government response to the Australian Small Business and Family Enterprise Ombudsman Inquiry*, November 2017, p. 3.

> will begin for the 2018-19 financial year. As agencies transition to the start of the new payment time of 20 days (on July 2019), it is anticipated that payment performance will improve year-on-year against this benchmark.[61]

Australian Supplier Payment Code

6.76 The Australian Supplier Payment Code, launched in May 2017, is a voluntary industry-led initiative that recognises the importance of prompt and on-time payment for suppliers through a set of best practice standards. It has been endorsed by the Council of Small Business Australia and the Victorian State Government. Signatories to the code commit to:

1. Pay small business suppliers within 30 days (subject to conditions)
2. Pay all suppliers on time
3. Provide clear guidance about payment procedures to suppliers
4. Work with suppliers to improve invoicing and payments practices
5. A process for resolving payment disputes and complaints
6. Basic reporting on company policies and practices in place to comply with the Code.[62]

6.77 In a media release on 22 November 2017 the Australian Government noted that the Australian Supplier Payment Code 'encourages big business to pay small businesses sooner.'[63]

61 The Treasury, *Payment times and practices: Government response to the Australian Small Business and Family Enterprise Ombudsman Inquiry*, November 2017, p. 3.

62 *Australian Supplier Payment Code*, <http://www.bca.com.au/policy-agenda/australian-supplier-payment-code>, accessed 18 October 2018.

63 Senator the Hon Mathias Cormann, Minister for Finance, the Hon Malcolm Turnbull MP, Prime Minister, and the Hon Michael McCormack MP, Minister for Small Business, 'Delivering Faster Payments for Small Business', *Joint media release*, 22 November 2017, <https://www.financeminister.gov.au/media-release/2017/11/22/delivering-faster-payments-small-business >, accessed 19 October 2018.

Conclusions and recommendations

Export Market Development Grants

6.78 Through the Export Market Development Grants (EMDG) scheme the Australian Government provides financial assistance for small to medium business. In 2017-18, $131.6 million in financial grants were paid to 3,706 businesses.

6.79 The committee notes the Office of Innovation Science Australia (ISA) recommendation to 'significantly increase funding support to export focussed SMEs through the EMDG scheme to further drive the success of Australian SMEs in export markets', and the Joint Standing Committee on Foreign Affairs, Defence and Trade recommendation in the *From little things big things grow: Supporting Australian SMEs go global* report to assess the current funding arrangements for the EMDG scheme 'to ensure it meets the growing demand and maintains the real value of individual grants'.[64]

6.80 The EMDG scheme is an important program for supporting Australian SMEs to increase their international marketing and promotion expenditure to help achieve a sustainable presence in the global market. An increase in EMDG scheme funding by the Australian Government will provide greater certainty and enhance support for SMEs to grow their export capabilities.

Recommendation 11

6.81 **The committee recommends that the Australian Government review the Export Market Development Grants scheme to ensure that the level of funding is sufficient to assist local small and medium-sized Australian businesses to increase their engagement with the global marketplace.**

In undertaking the review, the Australian Government should consider the new export opportunities arising from recent free trade agreements, including the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* and the *Indonesia–Australia Comprehensive Economic Partnership Agreement*.

64 Joint Standing Committee on Foreign Affairs, Defence and Trade, *From little things big things grow: Supporting Australian SMEs go global*, February 2019, p. 213.

Improving infrastructure coordination

6.82 It is clear that physical infrastructure is crucial to all aspects of Australian society. Businesses rely on this infrastructure, for example transport and logistics, to deliver goods and services to customers. Where infrastructure is lacking, this puts pressure on business operations and constrains business investment.

6.83 The committee recognises that this is a big and complex issue that must be tackled by all levels of government. It is too important to be relegated to the too hard basket or to adopt a piecemeal approach.

6.84 The committee noted KPMG's evidence that Australia would be better served by a permanent COAG secretariat. The committee agreed to consider whether a permanent secretariat would provide a continuity of support to better enable COAG to focus on shared issues of significance, including, but not limited to, planning and infrastructure and energy policy. KPMG has recommended that COAG should have a permanent secretariat and that the agenda should be partly set by the premiers and partly set by the Prime Minister of the day.

6.85 Transport infrastructure is an area in which government at all levels should explore opportunities, wherever possible, to harmonise policy and regulation so that it supports the planning, development, operation and maintenance of Australia's transport networks now and into the future.

6.86 The committee agrees that greater cooperation between the Commonwealth and State and Territory governments is needed on significant areas of policy that affect all Australians, such as planning and infrastructure.

Communications infrastructure

6.87 Given the importance of communications as an enabling infrastructure that drives growth and investment, it is crucial that businesses have access to reliable and affordable broadband services and mobile phone coverage.

6.88 While metropolitan areas tend to be reasonably serviced, the committee notes that access to these services are also crucial for regional businesses, including the agricultural sector, with modern and innovative farming practices depending on these services.

6.89 However, in some regional and remote communities farmers and businesses are not getting crucial services to help ensure the viability and growth of their operations.

6.90 While the Australian Government's Mobile Black Spot Program is working to improve mobile phone coverage and competition in regional and remote Australia, there is still some way to go in securing reliable and affordable broadband services for businesses in these areas.

6.91 The committee noted Commpete's proposed initiatives for enhancing National Broadband Network's customer outcomes.

Recommendation 12

6.92 **The committee recommends that the Australian Government adopts the following initiatives to enhance National Broadband Network (NBN) customer outcomes:**

- **require a competition impact statement to accompany all proposed policy and regulation, and**
- **recommit to a separated wholesale-only NBN selling on a non-discriminatory basis.**

Supplier payment times

6.93 For small and medium enterprises (SMEs), receiving late payments or being subject to extended payment times may not just impede business investment and growth, but could threaten the survival of the business.

6.94 The committee recognised that beyond that it can also take a significant personal financial and emotional toll on SME owners.

6.95 The committee noted that the Australian Government has taken responsibility for observing best practice in relation to payment times, and has agreed to a recommendation from the Australian Small Business and Family Enterprise Ombudsman to reduce its required payment time. From July 2019, non-corporate Commonwealth entities will be required to pay invoices for contracts worth up to $1 million within 20 calendar days (equivalent to 15 business days). This is a reduction on the current 30 day policy.

6.96 The Australian Government has also committed to mandatory performance reporting on its payment times and policies, which will begin for the 2018-19 financial year.

6.97 The committee recognises that the actions of large private companies in relation to late payments and extended payment terms are negatively impacting all businesses, in particular SMEs.

6.98 These companies must also take responsibility to establish clear, and fair, practices to ensure that businesses, in particular SMEs, are being paid on-time. It is in everyone’s economic interests that businesses have the opportunity to thrive and growth.

6.99 The Business Council of Australia’s voluntary Australian Supplier Payment Code is one way in which businesses can signal their willingness to improve payment times and strengthen their relationships with SMEs.

Mr Tim Wilson MP
Chair
1 April 2019

A

Appendix A – List of Submissions

1	Dr Taha Chaiechi
2	Craig Joy Workplace Consulting
3	NSW Business Chamber
4	National Offshore Petroleum Safety and Environmental Management Authority
5	Clean Energy Council
6	Public Interest Advocacy Centre
7	Australian Trucking Association
8	Insurance Council of Australia
9	Tasmanian Government
10	Commpete (Alliance for Competition in Digital Communications)
11	Australian Private Equity and Venture Capital Association Limited
12	Motor Trades Association Queensland
12.1	Motor Trades Association Queensland (supplementary)
13	CSL Limited and Cochlear Limited
13.1	CSL Limited and Cochlear Limited (supplementary)
14	Bland Shire Council
15	Australian Retailers Association
16	Woodside Energy Limited

17 Minerals Council of Australia

18 Master Builders Australia

19 Department of Foreign Affairs and Trade and Australian Trade and Investment Commission (joint submission)

19.1 Department of Foreign Affairs and Trade and Australian Trade and Investment Commission (supplementary)

20 Red Meat Advisory Council

21 KPMG

22 INPEX

23 The Tax Institute

23.1 The Tax Institute (supplementary)

24 Department of Industry, Innovation and Science

24.1 Department of Industry, Innovation and Science (supplementary)

25 Australian Dental Industry Association

26 Australian Chamber of Commerce and Industry

26.1 Australian Chamber of Commerce and Industry (supplementary)

27 Townsville Enterprise Limited

28 Australian Petroleum Production and Exploration Association

28.1 Australian Petroleum Production and Exploration Association (supplementary)

29 Business Council of Australia

30 Australian Small Business and Family Enterprise Ombudsman

31 Consult Australia

31.1 Consult Australia (supplementary)

32 Resource Industry Network

33 Business Council of Co-operatives and Mutuals

34 Institute of Public Affairs

35 RMIT Blockchain Innovation Hub

36 Spark Infrastructure

37 The United States Studies Centre at the University of Sydney

B

Appendix B – Hearings and witnesses

Tuesday, 31 July 2018 – Sydney

KPMG

Mr Grant Wardell-Johnson, Partner, Economics and Tax Centre

Mr Brendan Rynne, Partner, Economics and Tax Centre

Mr Ted Surette, National Industry Lead, Energy and Natural Resources, Management Consulting

Mr James Simpson, Partner, KPMG Law

Australian Chamber of Commerce and Industry

Mr Adam Carr, Director, Economics and Industry Policy

Ms Magdalena Kaczmarska, Senior Policy Adviser

Australian Private Equity and Venture Capital Association Limited

Mr Yasser El-Ansary, Chief Executive

Mr Kosta Sinelnikov, Policy and Research Manager

Consult Australia

Mrs Nicola Grayson, Director, Policy and Government Relations

Business Council of Co-operatives and Mutuals

Ms Melina Morrison, Chief Executive Officer

Ms Robyn Donnelly, Consultant

New South Wales Business Chamber

Mr Luke Aitken, Senior Manager, Policy

Mr Robert Millar, Policy Manager, Infrastructure

Australian Dental Industry Association

Mr Troy Williams, Chief Executive Officer

The Tax Institute

Professor Robert Deutsch, Senior Tax Counsel

Ms Stephanie Caredes, Tax Counsel

Public Interest Advocacy Centre

Mr Miyuru Ediriweera, Senior Policy Officer

Mr Douglas McCloskey, Policy Officer

Insurance Council of Australia

Mr John Anning, General Manager, Regulation

Wednesday, 1 August 2018 – Melbourne

Australian Petroleum Production and Exploration Association

Dr Malcolm Roberts, Chief Executive

Mr Noel Mullen, Deputy Chief Executive

National Offshore Petroleum Safety and Environmental Management Authority

Mr Stuart Smith, Chief Executive Officer

Mr Karl Heiden, Head of Division, Regulatory Support

Australian Retailers Association

Mr Russell Zimmerman, Executive Director

Mr Heath Michael, Director Policy, Government and Corporate Affairs

CSL and Cochlear

Professor Andrew Cuthbertson, Chief Scientific Officer and Director of Research and Development, CSL Limited

Mr Brent Cubis, Chief Financial Officer, Cochlear Limited

Minerals Council of Australia

Dr Matthew Steen, Director, Economics and Industry Policy

Mr James Sorahan, Director, Taxation

Mr Daniel Boettcher, Assistant Director, Industry and Trade Policy

Institute of Public Affairs

Mr Simon Breheny, Director of Policy

Mr Daniel Wild, Research Fellow

Tuesday, 7 August 2018 – Canberra

Australian Small Business and Family Enterprise Ombudsman

Ms Kate Carnell AO, Ombudsman

Ms Anne Scott, Principal Adviser

Department of Industry, Innovation and Science

Dr Chris Locke, Head of Division, Strategic Policy Division

Mr David Wilson, Acting Head of Division, Science and Commercialisation Policy Division

Ms Narelle Luchetti, General Manager, Digital Economy and Business Simplification Branch

Mr Nicholas Purtell, General Manager, Major Projects, Northern Australia and Major Projects Division

Department of Foreign Affairs and Trade and Australian Trade and Investment Commission

Mr James Wiblin, Assistant Secretary, Investment Branch, DFAT

Mr Graham Putt, General Manager, Trade and Investment, Austrade

Ms Margaret Bowen, Assistant General Manager, Ministerial, Economic and International Engagement, Austrade

Clean Energy Council

Mr Kane Thornton, Chief Executive Officer

Master Builders Australia

Ms Alex Waldren, National Director, Industry Policy

Mr Matthew Pollock, National Manager, Housing and Economics

Red Meat Advisory Council

Ms Anna Campbell, Chief Executive Officer

Mr Patrick Hutchinson, Chief Executive Officer, Australian Meat Industry Council and RMAC Member

Wednesday, 22 August 2018 – Canberra

Motor Trades Association of Queensland

Dr Brett Dale, Group Chief Executive

Townsville Enterprise Limited

Mr Michael McMillan, Director, Policy and Investment

Wednesday, 12 September 2018 – Canberra

Bland Shire Council

Mr Jeffrey Stien, Senior Economic Development and Tourism Adviser

Wednesday, 17 October 2018 – Canberra

INPEX

Mr Bill Townsend, General Manager, External Affairs and Joint Venture

Commpete (Alliance for Competition in Digital Communications)

Ms Michelle Lim, Chairperson

Mr David Forman, Public Officer

RMIT Blockchain Innovation Hub

Professor Jason Potts, Director

Dr Chris Berg, Senior Research Fellow

Dr Mikayla Novak, Postdoctoral Research Fellow

Dissenting Report—Australian Labor Party

Introduction – an uncertain economy in an unstable country

The Coalition Government's credentials in relation to reducing impediments to business is a sham, and should be called out. The report put forward by the Coalition members of this Committee is a poor display with no ambition or change.

The chaos and division of this Government is astounding, and it is hurting business investment. This current Government has had three Prime Ministers, three Treasurers, five Defence Ministers and 12 energy policies since 2013 and the business community is rightly concerned. The Labor Party has been a pillar of consistency, we have learnt from our mistakes with one Leader, one Shadow Treasurer and a united team over the course of the past five years.

Industry is crying out for some good governance, a stable Parliament and quality Ministers with time in their portfolio's to get across their briefs and contribute in a meaningful, rather than haphazard manner of the current Government.

Cochlear were highly critical of current Government practise when it comes to uncertainty in the economy, stating:

> *"Ongoing change and uncertainty around macro and micro economic regulation undermines the confidence businesses need to make multi-million dollar investment decisions. Government needs to be more cognisant of the impact of change and consult carefully with impacted sectors before announcing/implementing.*
>
> *Recent examples of regulatory change undermining business confidence in Australia include multiple changes (both actual and foreshadowed) to the R&D tax incentive and the abolition of 457 visas without reasonable industry consultation."*[1]

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[1] Submission 013, Cochlear and CSL, *Joint Submission to the House of Representatives Standing Committee on Economics Inquiry into Impediments to Business Investment,* page 6.

During the public hearing, Mr Cubis of Cochlear went further noting the idea of four year fixed term elections for Federal Government's would be quite appealing.

> ***Mr Thistlethwaite:*** *You talk in your first couple of pages about the need for policy stability and business certainty. We've heard this quite a bit in this inquiry. Often, people say that the Australian political system – the length of terms for governments – is too short and that you can't get any consistency and planning. Is that something that you think that government should look at? Perhaps we should be looking at four year fixed terms for federal parliament?*
>
> ***Mr Cubis:*** *Absolutely.*
>
> ***Prof. Cuthbertson:*** *Probably. But I would suggest also that in the sort of work we do it's usually supported by both sides of politics because we're talking about the creation of high-paying jobs and wealth in Australia, and with a social benefit as well. We find it's not party political, but there is a fragmentation between both sides of politics and federal and state. If you could smooth that out and have some consistency it would really help us make these long-term investments that we want to make.*
>
> ***Mr Cubis:*** *I fully agree with you. It should be four-year terms like the states mainly have. It's easier; you don't have the politics that go around what date you go for and all that type of stuff. Everyone knows March – whatever it is – next year is for New South Wales. It's just simple; it's easy. In America, it's the first Tuesday of every four years in November – it's pretty easy.*
>
> ***Prof. Cuthbertson:*** *There's just a huge temptation, I'm sure – and which I understand – if there's a change of government to have a review for 12 to 18 months and then change everything. What that means for us is, we stop. We just down tools and say, 'Gee!'. Some collaboration and consistency would be really helpful.*[2]

In their submission, INPEX General Manager of External Affairs and Joint Venture Bill Townsend continues on the theme of stability as a key to business investment.

> *The provision of certainty in policy direction and a stable regulatory framework is where the Government can have the most significant impact on stronger investment.*[3]

The key areas in which the Coalition Government has failed business are in the energy policy space, the botched NBN roll out, a taxation policy that favours the

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[2] House of Representatives, Standing Committee on Economics, Hansard, Wednesday, 1 August 2018, Melbourne, page 30.

[3] Submission 22, INPEX, *Submission to the House of Representatives Standing Committee on Economics Inquiry into Impediments to Business Investment,* page 5.

big end of town and Industrial relations policies that have stifled any chance of wage growth.

Recommendation 1:

The committee recommend that a close examination of the experience of states that have shifted to 4 year terms with a particular emphasis on the experience of stakeholders in relation to certainty and stability for the business investment environment.

Electricity - price and reliability

Energy prices have shot up over the term of this Government, with more different energy policies than jobs created in coal-fired power stations. The bi-partisan National Energy Guarantee, a long term energy solution accepted by most of the business community was harpooned by this Government along with a Prime Minister, since which there has been no clear Energy policy of note. The Business Council of Australia agreed, as noted by their submission:

> *There has been a decade of uncertainty in climate policy which has undermined investor confidence. A clear and comprehensive policy framework must be implemented at a national level. Companies will only invest in new infrastructure in electricity and other key industries if they can see a stable policy framework, with minimal government intervention, that will endure no matter who is in power. The National Energy Guarantee (NEG) offers a framework for achieving this but will require a great deal of work and political goodwill.*[4]

Recommendation 10 (chapter 5, paragraph 5.54) of the Committee Report, that *"the Australian Government continues its focus on improving reliability and the price in electricity"* is laughable in its vagueness and naivety at best or completely irresponsible at worst. This is a Government whose own back bench would want taxpayers to underwrite and invest in new coal-fired power stations. The evidence is clear. Coal energy is becoming uneconomical and most energy companies are turning to a renewable future even regardless of Government intervention.

The Clean Energy Council outlines this in their submission:

> *"Roughly $12 billion worth of renewable energy projects reached financial close in Australia since 2017, and the new energy supply from those projects is expected to reduce the average power bill by hundreds of dollars a year during the next decade. These projects have created more than 6500 jobs, and reinvigorated regional communities across Australia. The capacity for the renewable energy sector to continue building the energy infrastructure of the future is in the interest of all Australians.*

[4] Submission 29, Business Council of Australia, Submission to the House of Representatives Standing Committee on Economics Inquiry into Impediments to Business Investment, page 5.

> *Further to these projects is record investment in energy storage systems. Energy storage has the capacity to provide services for grid stability, further integrate new generation into the grid, and ultimately cut costs for consumers. However these projects also require establishment of a market framework to recognise and reward provision of those services, which can be provided through improved policy incentives."*[5]

The Labor Party has committed to 50% renewables of electricity supply by 2030 and a stable energy policy based on a belief in climate change and a need to subdue it.[6] Price influxes have also been detrimental to the economy, especially for manufacturers. INPEX agrees stating:

> *INPEX fully accepts the global challenge of climate change and supports Australia's commitments and intentions made under the Paris agreements at COP21. Specifically, we support a national climate change policy that delivers emissions reduction at least cost and facilitates investment decisions consistent with an international price on carbon.*[7]

The Business Council of Australia goes further stating:

> *Rising energy costs and supply uncertainty flowing from inconsistent carbon emissions reduction policies are jeopardising existing business operations let alone new investments in Australia. Progressing the NEG will be critical for providing a more stable investment framework.*[8]

It is clear this is significantly affecting the Australian economy, and only the election of a Shorten Labor Government can start to reverse this damage that has already been done.

It is clear this is significantly affecting the Australian economy, and only the election of a Shorten Labor Government can start to reverse this damage that has already been done.

A Labor government will introduce a National Interest Test for all new LNG export facilities, and for significant expansions of supply at existing export facilities. Reducing the price of gas helps ease the burden on businesses and

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[5] Submission 005, Clean Energy Council, *RE: Review of impediments to business investment in Australia*, page 1.

[6] Bill Shorten, Australian Labor Party, "Media Release – Labor's Plan for More Renewable Energy and Cheaper Power", 22 Nov 2018, available from: https://www.billshorten.com.au/_labor_s_plan_for_more_renewable_energy_and_cheaper_power_thursday_22_november_2018

[7] Submission 22, INPEX, *Submission to the House of Representatives Standing Committee on Economics Inquiry into Impediments to Business Investment,* page 3.

[8] Submission 29, Business Council of Australia, Submission to the House of Representatives Standing Committee on Economics Inquiry into Impediments to Business Investment, page 6.

families today, and it helps Australia move responsibly towards a renewable energy future – locking in the reliable, dispatchable power we need.[9]

Recommendation 2:

The Government support Labor's plan for a 50% renewable energy target by 2030 and greater investment in renewable energy to reduce electricity prices and encourage a more stable electricity price regime for Australian businesses.

Communications – NBN

The NBN has failed many in business, especially small and medium enterprises who rely on quality internet for their livelihood. Contributing to the uncertainty was the clear broken promise by this Government that all houses would have NBN by 2016! In 2019 there is still no end to the roll out in sight.

Recommendation 12 (chapter 6, paragraph 6.92) of the Committee report represents the government's arrogance and ignorance regarding the problems with the NBN rollout and the issues businesses regularly confront in connecting to the NBN. The company Commpete, were dismayed by the Government's NBN policy:

> ***Mr THISTLETHWAITE:*** *What's happened? Why is there so much community anger about the NBN? I've got residents who get connected to the NBN and then 30 days later they have no internet. Why is all of this happening?*
>
> ***Mr Forman:*** *How long have we got?*[10]

Mr Forman stated "*the NBN had in place and still has, to some extent, a pricing structure that makes it very difficult for the retail customers to buy enough capacity to serve end users*".[11]

In 2017, complaints about the NBN alone increased by 204 per cent. Ms Lim of Commpete agreed noting "*I do think that in recent years, as the consumer complaints have been rising and as NBN has been rolling out, the policymakers and regulators have increasingly responded with regulation*". [12]

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9 Bill Shorten, Australian Labor Party, "Media Release – LABOR WILL PROTECT MANUFACTURING JOBS WITH NEW GAS MEASURES, 3 Sept 2018, available from: https://www.billshorten.com.au/labor_will_protect_manufacturing_jobs_with_new_gas_measures_monday_3_september_2018

10 House of Representatives, Standing Committee on Economics, Hansard, Wednesday, 17 October 2018, Canberra, page 13.

11 House of Representatives, Standing Committee on Economics, Hansard, Wednesday, 17 October 2018, Canberra, page 13.

12 House of Representatives, Standing Committee on Economics, Hansard, Wednesday, 17 October 2018, Canberra, page 13.

A Labor Government will act to support small businesses by developing clear standards for connection timeframes, fault repair timeframes, and missed technician appointments through the NBN Service Guarantee.[13] This is policy that will help fix failing business in Australia.

A Shorten Labor Government will ensure Australian small businesses get a fairer go by establishing penalties on NBNCo for underperformance – allowing for consumer compensation if their NBN experience isn't up to scratch.

Recommendation 3:

The Government adopt Labor's NBN Service Guarantee to develop clear standards for connection timeframes, fault repair timeframes, and missed technician appointments as well as allowing consumer compensation where the NBN does not meet performance standards.

Taxation & Investment in Australia

Labor supports Recommendation 9 (paragraph 4.56) being the $25,000 instant asset write-off threshold as of course we would because this was and is a Labor Policy. In fact, not only was it **introduced** in 2013 by the **then** Labor Government, it was this Liberal-National Government that abolished the policy in the disastrous 2014 Budget only to bring the policy back in 2015 following a strong backlash from small business.

Now Labor is going further in supporting business investment in Australia, to help them grow and employ more people.

Labor's Australian Investment Guarantee will allow businesses in our community to immediately deduct 20 per cent of any new eligible asset worth more than $20,000. All businesses in Australia will be able to immediately deduct 20 per cent of any new eligible asset worth more than $20,000, with the balance depreciated in line with normal depreciation schedules from the first year. This will help businesses invest in grow.

The Business Council agreed with Labor's approach:

> ***Mr Thistlethwaite:*** *Some people have advocated making asset deductions and write-offs permanent. The current government's approach is ad hoc. Labor's proposed an investment guarantee so that it would be permanent that you could*

[13] Bill Shorten, Australian Labor Party, "Media Release – LABOR'S NBN SERVICE GUARANTEE – DELIVERING BETTER PROTECTIONS FOR SMALL BUSINESS AND CONSUMERS, 24 June 2018, available from: https://www.billshorten.com.au/labor_s_nbn_service_guarantee_delivering_better_protections_for_small_business_and_consumers_24_june_2018

> *deduct a certain amount initially, in the first year, at a higher rate than ordinarily would be the case. What's your organisation's view on that?*
>
> ***Mr Sorahan:*** *Labor's policy is positive. It's good to see both major parties agreeing that we need to have a reduction in the effective rate on investment in this country for companies. So that's a good thing. It's better to have an across-the-board rate cut that's neutral that applies to all businesses and all investment, and being phased in it reduces some of the windfall gain. But investment guarantee can try to do a similar thing. The numbers are a bit smaller. But it's good that both parties acknowledge it and it's good policy.*[14]

Labor has a plan to help business in this country, by strengthening small to medium enterprises, investing in quality long term infrastructure and turning around the ship with a strong and stable Government with quality Ministers.

Labor has also pledged to maintain the Minister for Small Business a position in Cabinet, overturning the disgraceful decision by this Government to remove it. Labor will also legislate to establish a new position of Second Commissioner (appeals) within the Tax Office, to ensure small business disputes are given the care and attention they deserve.

Under the Liberals, multinationals and millionaires aren't paying their fair share of tax. The Reserve Bank Governor, for one, has cautioned against reckless cutting of corporate rates.

> *"I think that's very problematic, and if we were to go down the direction of having lower corporate tax rates, I think it would be a big mistake to do that on the back of higher budget deficits"*. Dr Lowe stated.[15]

Recommendation 8 (chapter 4, paragraph 4.51) of the Committee Report proposes reducing the corporate tax rate to 25% for all businesses. While the Labor Party supports such reductions for small and medium enterprises, we continue to oppose any decrease in tax cuts for larger corporations and big business. Instead on spending of current taxes should be focussed on more effective boosts for the economy. Furthermore, Government debt has doubled since the Coalition got into power in 2013, reaching record highs. This is money that directly results in less funding for schools and hospitals by this out of touch Coalition Government.

Labor will further help sure up the economy by protecting sub-contractors working on Government projects from being left unpaid when dodgy businesses

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[14] House of Representatives, Standing Committee on Economics, Hansard, Wednesday, 1 August 2018, Melbourne, page 37.

[15] Peter Ryan, ABC News Online, "RBA Governor Philip Lowe Warns lower corporate tax rates must not increase deficit", 16 Feb 2018, available from: https://www.abc.net.au/news/2018-02-16/rba-governor-philip-lowe-warns-on-lower-corporate-tax-rates/9454682

go bust through the implementation of the **Tradie Pay Guarantee.**[16] This works by requiring contactors working on Commonwealth contracts to create project bank accounts that use cascading statutory trusts, so that all businesses down the supply chain get paid on time.

Recommendation 4 (chapter 2, paragraph 2.150) of the Committee Report notes the work on reform to the restrictions on the parallel importation of books, this is a policy the Labor Party strongly opposes and as a Party we will continue to fight for our Australian stories, and the tens of thousands of jobs which depend on a strong local book publishing industry.

Recommendation 4:

The Government adopt Labor's Australian Investment Guarantee to allow Australian business businesses to immediately deduct 20 per cent of any new eligible asset worth more than $20,000.

Recommendation 5:

The Government should also legislate to establish a new position of Second Commissioner (Appeals) within the Tax Office, to ensure small business disputes are given the care and attention they deserve.

Conclusion

The Committee report effectively provides a detailed exposition of the shortcomings of the present Liberal Government when it comes to supporting Australian business and economy.

In particular, many of the observations made in evidence to the committee and in the matters highlighted in the committee report, including statements by DFAT and Austrade, refer to the importance of certainty of regulation in the economy and the ever increasing pressure on profitability from the increasing cost of energy, in particular electricity.

It is no small irony, therefore, that the area of policy at a Federal level beset with more uncertainty than any other is energy policy. Indeed, as of March 2019, the Liberal Federal Government has had 12 different energy policies, none of which has nor is likely (due to their own Party Room divisions and divisions between the Liberals and Nationals) to be implemented.

Infrastructure funding has halved under this Government and the $75 billion infrastructure funding that the Government boasts about doesn't appear in any of their budgets.

[16] Bill Shorten, Australian Labor Party, "Media Release – TRADIE PAY GUARANTEE, 26 Feb 2019, available from: https://www.billshorten.com.au/tradie_pay_guarantee_tuesday_26_february_2019

All in all, this Government has failed to improve business conditions in the Australian economy when they were blessed with powerful companies and plenty of available capital. Poor decisions in R & D funding, taxation policy and a pure lack of political stability has placed unfair duress on the economy and rightly so the business community is asking for change.

The biggest impediment to business in Australia right now is the Coalition Government.

Hon Matt Thistlethwaite MP

Matt Keogh MP

Josh Wilson MP

1 April 2019