

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

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

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.

- 1.45 When questioned on what it would mean for Australia to become less competitive, KPMG 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 disincentive 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, ASBFEO 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,
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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:

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

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 Townsville 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.