Australian Chamber of Commerce and Industry
ABN 85 008 391 795
T: +61 2 6270 8000
info@acci.com.au
www.acci.com.au

3 September 2024

Senate Standing Committees on Economics
Future Made in Australia Bill 2024

Australian Chamber of Commerce and Industry
Response to Questions on Notice from Senator Andrew Bragg

1. *Are business settings in the Australian economy currently conducive to investment in manufacturing?*

- Business settings in Australia are currently not optimal for investment in manufacturing.
- We need to get the fundamentals right to make Australia an attractive destination for investment. This requires a comprehensive reform of our two-tiered tax system, fit-for purpose regulation that is simple and outcomes-focused, a balanced and flexible workplace relations system, a simplified and streamlined approvals process for major projects, a more efficient process for screening foreign investment, a robust education and training system that enhances skills development, and a migration strategy focused on attracting skilled workers.
- Addressing these fundamentals is the most important priority, and critical for supporting investment and growth in emerging sectors.

2. *What is Australia's current supply of baseload, reliable energy and is it sufficient to support a manufacturing industry?*

- To maintain existing manufacturers and support the development of new manufacturing industries, requires a secure, reliable and affordable energy network.
- The Australian Energy Market Operator's recent Electricity Statement of Opportunities shows forecast reliability levels will only be met if proposed and anticipated generation and storage projects are delivered as scheduled. If expected projects are significantly delayed or not built, reliability gaps will emerge as early as this summer in South Australia, New South Wales and Victoria, with more significant longer-term challenges to electricity supply emerging with the closure of coal-fired and gas power stations in South Australia from 2026–27, and in Victoria and New South Wales from 2027–28.
- Similarly, AEMO's Gas Statements of opportunities is forecasting the east coast gas market to experience peak day shortfalls in gas supply coincident with high demand for gas-powered electricity generation (GPG) in 2025, with more significant annual gas supply shortfalls expected from 2028 onward.
- AEMO's 2024 Integrated System Plan for the electricity network shows GPG demand rapidly increasing as coal-fired power is retired. Therefore, more gas is

Canberra
Commerce house
Level 2
24 Brisbane Avenue
Barton ACT 2600
PO Box 6005

Melbourne
Level 2
150 Collins Street
Melbourne VIC 3000

Sydney
Level 7
8 Chifley Square
Sydney NSW 2000

needed to ensure the stability and reliability of the electricity network in the energy transition out to 2050.

- While these forecasts are based on existing electricity demand, they do not take into account the additional capacity that will be required to meet the additional demands of new manufacturing facilities. The production of the polycrystalline silica needed for solar panels, as well as the production green hydrogen and critical minerals processing driven by the production tax incentives, will require vast amounts of renewable energy, which is not currently available nor included in prevailing energy demand/supply forecasts. Further, proposed investments in green metals (steel and aluminum) and low carbon liquid fuels (LCLF), also require vast amounts of renewable energy. Investment in these sectors cannot occur until the additional renewable energy capacity is developed to meet the needs of new manufacturing facilities.

3. *Is gas essential for manufacturing and the net zero transition, and should it be included in this policy framework?*

- Gas will play an essential ongoing role in Australia's energy market during the net-zero transition, continuing to support the electricity network and commercial and industrial gas-reliant businesses over the next thirty years and beyond.
- It will be some time before alternatives technologies, such as battery and pumped hydro, are developed to a point where they are economically viable and can be scaled-up to a point where they can provide the firming capacity in the electricity network, replacing gas. Similarly, it will be another decade or more before green hydrogen is produced in the volumes necessary and at an affordable price for use as a feedstock in chemicals or the high heat requirements of heavy industrial applications, such as processing mineral and smelting metals.

4. *Is CCS essential to decarbonising industry and does it present a good economic opportunity for Australia given our landmass and that many of our trading partners - Japan, Singapore, Korea - will need sequestration?*

- Without carbon capture and storage as an option, it will be very difficult for Australia to meet Australia's emissions reduction targets.
- CCS enables sectors where emissions cannot be avoided, such as the industrial production of steel and cement, to reduce their atmospheric emissions by storing CO_2 permanently underground.
- Blue hydrogen, produced from natural gas with emissions captured and stored, is also likely to be an important component of the transition to green hydrogen, as it will support the development of the infrastructure and the development and instillation of the technology/equipment using hydrogen, while green hydrogen is being developed and scaled up to be commercially viable and affordable.
- Therefore, CCS should be recognised as an eligible decarbonisation technology for support through FMA.

5. *Why should taxpayers - when we have a structural deficit and the cost of borrowing is between 3-4.5% compared to 0.35% just a few years ago - be paying to subsidise businesses who have access to other paths for financing?*
    a. *Would your members be prepared to pay more tax to cover these costs?*
    b. *What offramps exist in the policy framework*

- Australia's productivity growth is at its lowest level in over 60 years and has recently been contracting. Greater support for business investment is needed to lift productivity and drive strong economic growth. Investment typically brings new technologies, which can boost productivity through skills development and innovation.
- FMA has the potential to stimulate private investment in relevant sectors and diversify Australia's industrial base. Incentives and support to drive business investments can in certain instances be justified, as providing benefits to the economy or the broader national interest.
- These investments should be in sectors where Australia is internationally competitive. Care is needed to ensure that the government is not just trying to 'pick winners' in sectors that are a priority for the government, but don't have a long-term comparative advantage.
- FMA should not be used to develop industries that are not sustainable over the long-term without continuing government financial support. As the Productivity Commission cautions, there must be an exit strategy for investments that prove to be unsuccessful. Failure to do so risks allocating support to industries that may not have reasonable long run prospects, redirecting scarce resources away from sectors that do have comparative advantage.

6. *Is there a genuine fear that the Community Benefit principles could just become another component of IR red tape?*
    a. *What impact will this have on investment particularly given the recent commencement of the right to disconnect laws, and the Fair Work Decision on Friday about collective bargaining?*

- The Community Benefit Principles introduce a range of extra hurdles, beyond the efficient delivery of projects, that are likely to drive up the costs of the initial investment, as well as the ongoing operating costs, and ultimately the costs for taxpayers.
- FMA should not be used to promote other government agendas, such as arbitrary employment regulations promoting "safe and secure jobs that are well paid and have good conditions." Mandated labour arrangements such as these will only increase the cost of projects and reduce the economic benefits of these projects to the wider community.
- Funding for Future Made in Australia projects should be determined by the classic principles of value for money for taxpayers, not a new formulation which brings in a

trade union agenda of inflexible and unproductive work arrangements through the back door.

7. *What are the practical limitations for a business in trying to complete these Future Made in Australia plans before even applying for funding - Is there any clarity about what they would involve?*
    a. *Is there any clarity from government of how this might duplicate existing functions - for example, FIRB disclosure requirements on tax, Australian Industry Plans? could it just be layering red tape?*
    b. *What impact would that have on productivity?*

- The Future Made in Australia Plans are an additional administrative requirement on business to show the project aligns and will achieve outcomes consistent with the Community Benefits Principles.
- As noted above, the Community Benefits Principles go well beyond sound investment decision-making into a range of other areas, that are more aligned with the government's political priorities than the efficient delivery of projects. They simply represent additional regulatory requirements on the project proponents that will reduce the potential returns on investment, while increasing the cost to the taxpayer. They are likely to discourage both domestic and international companies from investing in Australia, due to the heavy hand regulatory burden they represent.
- Ultimately, the Community Benefits Principles are a dead-weight on productivity, a restraint on the international competitiveness of projects and will limit the overall economic benefits that can be achieved through these investments.

8. *What are the risks - as the Productivity Commissioner has warned - that once you turn this tap on, you can't turn it off? - you wind up with businesses wholly reliant on the government - what would that mean for productivity and business dynamism.*

- The Productivity Commission rightly warns that FMA must include an exit strategy for investments that prove to be unsuccessful. Failure to do so risks perpetuating support to industries that may not have reasonable long run prospects, redirecting scarce resources away from sectors that do have comparative advantage.
- All financial support through FMA should be time-limited and progress against milestones regularly reviewed, with procedures in place to withdraw funding from individual projects and/or sectors that are not achieving their policy goals.

9. *Should PsiQuantum and Solar Sunshot have gone through the same proposed rigour this legislation is attempting to put in place?*

- ACCI is concerned that previously announced as FMA projects, including Solar SunShot and PSI Quantum, have not been assessed under the NIF, or subjected to a thorough sector assessment process.

- Before any funds are distributed to these projects, it needs to be shown they are consistent with the NIF, particularly that they are in a sector where Australia can be internationally competitive and investment in the project delivers value for money.

10. *What are your concerns about the scope of the sector assessments, and why you'd prefer such activity to be undertaken by the Productivity Commission.*

- ACCI is concerned with the approach that gives the Minister the discretion in identifying where investment is directed by deliberately loosely define the term 'sector'.
- Without clear criteria for defining what a sector is, it makes it difficult to know the extent to which a sector aligns with the NIF. Moreover, with the NIF designed as an overarching framework, there is greater reliance on the sector assessments to ensure the integrity of the investment made under FMA. Yet, sector assessments are only undertaken by the Treasury department at the direction of the Treasurer.
- Sector assessments must be prepared for all sectors where FMA funding is distributed, not just at the discretion of the Treasurer. These sector assessments need to be independent, robust and informed by a range of views, expert advice, information sources and future market conditions that could impact the return on investment in the sector.
- ACCI is not stipulating that the assessments should be carried out by the Productivity Commission, just that the assessments must be carried out by an independent body, not subject to direction or influence by the government. Also, the body need to have the right expertise, so that the assessments are sound. Ultimately, the assessments need to prove conclusively that Australia is competitive internationally in the sectors and the investment will deliver value for money.

11. *Would you say on the policies announced to date - are there key areas where Australia has established comparative advantages missing from this framework?*

    a. *Does Australia have comparative advantages in manufacturing solar panels?*

    b. *How do your members feel who aren't eligible for the forms of support that have already been announced about being excluded - I imagine if you're a manufacturer who has been here for fifty years employing Australians you might feel there isn't much here for you?*

- ACCI is concerned that a number of projects, including the Solar Sunshot, were pre-announced and funding allocated before the Future Made in Australia Bill establishing the assessment criteria was released, let alone legislated. These projects do not appear to have been assessed against the National Interest Framework and there has not been thorough sector assessments to support them.
- ACCI stress that these pre-announced projects must be rigorously evaluated under the National Interest Framework to ensure they are in sectors where Australia is competitive and the projects represent value for money.

- In announcing these projects before they have been thoroughly assessed, the government risks investing in industries that may not be internationally competitive in the long term.

12. *Is the current foreign investment framework fit for purpose to bring in foreign investment?*
    a. *What reforms could be made here?*

- Many other countries and trading blocs are investing heavily in their own net zero transition. Australia cannot expect to compete with the high level of public funds invested in programs, such as the US Inflation Reduction Act and EU Green Deal.
- Australia has a positive reputation for investment, due to its political and economic stability, with a transparent and fair legal system, strong governance and financial structures, and a highly educated and skilled workforce. However, there are also a number of factors that deter investors, with corporate tax rates amongst the highest in the OECD, a heavy regulatory burden, extremely complex environmental approval processes that can hold up investment for years, an inflexible and complicated workplace relations system, and an opaque and unpredictable foreign investment screening process.
- As noted above, we need to get the fundamentals right to make Australia a more attractive destination for investment.

13. *We heard at Senate estimates that the commitment to a single front door was a commitment to conduct a review - to your knowledge is that function in Treasury operational and have you had any members utilise the service - or clarity on what it will actually do?*

- ACCI welcome the commitment to a ‘single front door’ for priority projects aligned with the FMA agenda, providing a single point of contact to assist international investors to navigate Australian regulation.
- While announced, the single front door is yet to be set up and we have only limited understanding of how this will work in practice. We await this detail.