



***NORTHERN TERRITORY GOVERNMENT
SUBMISSION TO THE INQUIRY INTO
THE BUSINESS INNOVATION AND INVESTMENT
PROGRAM***

MAY 2014

Introduction

The Northern Territory Government welcomes the opportunity to contribute to the review of the Business Innovation and Investment Program (BIIP).

This paper addresses the Terms of Reference issues and also highlights deficiencies in the BIIP from a Northern Territory perspective and puts forward proposals designed to address those deficiencies.

Context

The Northern Territory's economy, while relatively small compared to other Australian jurisdictions, is vibrant and has an abundance of mineral and energy resources. Its close proximity to Asia, the fastest growing region of the global economy, provides ample potential business and investment opportunities.

The Northern Territory is heavily reliant on private investment and business activity to drive and support its economy and growth. It is currently undergoing a period of strong economic growth and is rated as Australia's second best performing economy.¹ In 2012-13, Territory gross state product (GSP) increased by 5.6% reflecting strong growth in private investment, household consumption and net exports. Total investment in the Territory in 2012-13 was valued at \$11.9 billion, an increase of 43% compared to 2011-12.² It is important to note that although the growth is significant, the level of investment in the Northern Territory is lower than that in many other Australian states.

Private investment in the Northern Territory constitutes the largest component of overall investment at 89% (\$10.7 billion). In 2011-12 private investment increased by 62% largely driven by record levels of non-dwelling construction activity associated with major projects such as the \$34 Billion INPEX Ichthys LNG Project (the largest private sector resource project in Australia); Montara Oilfield development; expansion at the McArthur River zinc-lead mine, GEMCO manganese mine; and the Marine Supply Base.

There were 14,313 businesses in the Northern Territory at 31 March 2014.³ These were primarily in the construction industry and are dominated by small to medium enterprises. In total 93.6% of businesses are small businesses, employing less than 20 employees, with 61.3% of these being non employing businesses. Small business plays a major role in driving and sustaining the Northern Territory economy.

The Northern Territory's economy is forecast to grow at 5.0% in 2014-5.⁴ This growth is expected to be driven by private sector investment, export growth and improved household consumption on the back of stronger jobs growth. This is the highest

¹ Commsec States of the States Report, Jan 2014

² ABS Cat. No. 5220.0

³ ABS Cat. No. 8165.0

⁴ NT Treasury and Finance

annual growth of all jurisdictions and higher than the national growth forecast of 2.7% in 2014-15.⁵

It should be noted that the Northern Territory's economy is in a strong economic growth phase and vehicles such as the Business Innovation and Investment Program have the potential to encourage and direct private sector investment and business entrepreneurial skills to regional and priority areas of Australia. With the appropriate policy settings the BIIP has the potential to play an important role in the development of northern Australia.

1. Assess whether the BIIP is meeting its intended objectives and if any adjustments are necessary

From the Northern Territory point of view the BIIP is not meeting its objectives of cultivating entrepreneurship, building business activity and injecting investment capital into the Northern Territory. Despite its current favourable investment and business environment, since the introduction of the BIIP, the Northern Territory has only nominated two primary applicants, both for the business innovation stream.

Some issues which have arisen under the current, and in some cases past, policy settings which have precluded the BIIP from meeting its intended objectives in the Northern Territory include:

Centres on the eastern seaboard of Australia are more attractive to the majority of international migrants. Statistics show that by far the greatest majority of BIIP applicants are migrating to eastern seaboard states. The eastern seaboard metropolitan centres of Sydney, Melbourne and Brisbane are particularly popular with international migrants due to a number of factors, such as:

- Potential migrants have a limited level of awareness or knowledge of regional areas of Australia.
- Many international migrants come from centres with large populations and prefer to settle in similarly populated areas.
- Larger metropolitan centres are more attractive to many migrants because of the greater range of services they can offer.

It has been suggested by the Department of Immigration and Border Protection (DIBP) that marketing is the key to encouraging greater interest from BIIP applicants to smaller states/territories. However, various Northern Territory Government agencies, including the Department of Business, undertake regular marketing and promotional activities to attract international investment to the Northern Territory. Significant resources are allocated to marketing in the Peoples' Republic of China, working closely with quality migration agents and marketing at Australian and international events such as Territory Resources Week, South East Asian Onshore and Offshore Conference, Mining the Territory Conference and the China Mining conferences. Despite these efforts interest in the BIIP for the Northern Territory has been minimal.

⁵ Deloitte Access Economics Dec Qtr 2013

The Northern Territory believes the benefits of the BIIP program should be more equitably distributed and that regional incentives are needed in the scheme to attract business people and investors to northern Australia. If Australia is to realise the greatest benefit from the BIIP program then the geographic dispersal of those investments and business activities across Australia is essential. It is unlikely that regional or priority areas of Australia will achieve an appropriate proportion of the entrepreneurial skills and investment unless there are incentives to encourage this dispersal.

Such an approach would align the BIIP policy with the current Australian Government's objective to build a strong, prosperous northern Australia.

The concept of concessions based on regional areas already exists within current migration policy. An example of this is the state/territory nominated visas under the General Skilled Migration program. Concessions are recognised ways of encouraging migrants to settle in areas that are perceived as less attractive.

Concessions for the BIIP could be achieved by increasing the level of investment or business activity required in areas not designated as regional or alternatively relaxing requirements for regional areas.

Applicants are not basing business decisions on investment return, opportunity or market factors but rather on safety and convenience. A clear analogy can be made between current investment and business patterns and the investments and businesses that were made under the former Business Skills Migration program. Under the Business Skills Migration program many overseas business migrants opted to purchase existing businesses such as takeaway shops as the way to meet the requirements to obtain a permanent residency visa. Such investments were considered 'safe' for the purposes of migration, offered relatively small benefits to Australia but notably retention of the business was unlikely once an applicant obtained their permanent residency.

An example is provided by the Subclass 188 Significant Investor Stream (SIV) where applicants have predominantly been investing in State Government Bonds. It is acknowledged that these investments have significantly lower rates of return compared to other eligible SIV investment options, however, because it is backed by state/territory government guarantees, State Government Bonds are considered to be safer and easier as they carry minimal risk.

Further, applicants do not appear to take into consideration the returns from their investments or business activities. To date, although the Northern Territory Treasury Corporation's eligible investment, Territory Bonds, offers a rate traditionally higher than other government bonds, no investors have been attracted.

Quality of applicants. In SkillSelect there are currently 30 Expressions of Interest (EoI) where applicants have indicated an interest either in all states or in the Northern Territory. A detailed examination of these EoIs by the Northern Territory Government reveals more than 30% have not been submitted by applicants but rather have been made by migration agents, providers of financial and investment services or other service providers.

The Northern Territory Government through its Department of Business which has carriage for business and skilled migration, is using SkillSelect as a tool for direct marketing of Northern Territory nominations. Direct contact has been made with over 200 EoI applicants in SkillSelect. All the applicants contacted are provided with detailed information on investment opportunities, economic conditions, lifestyle and other subjects to inform their deliberations on investing and doing business in the Northern Territory. Despite this, there have been no responses seeking the Northern Territory's nomination.

Furthermore the eligibility criteria exclude numerous potential applicants who have the desired business capability and capital. The Northern Territory conducted an exercise when the current BIIP criteria was introduced on 1 July 2012. In this exercise some business skills migrants who had obtained visas under the Business Skills Migration program were assessed against the relevant BIIP criteria. These migrants have together contributed hundreds of millions to the economy and created new jobs and industries in remote regions of the Northern Territory. The majority were unable to meet the current criteria.

An increased emphasis on marketing to and attracting high quality applicants will assist in having a sufficient pool of potential applicants. A coordinated marketing approach is also likely to yield far better results.

While all state and territory governments develop and deliver international marketing strategies and promotion, China is currently the primary market for the BIIP program. There is potential for a "team Australia" coordinated marketing approach to expand the promotional penetration of the BIIP program into other markets such as Singapore, Malaysia, India and South Africa.

In the past the Australian Government promoted the Business Skills Migration program e.g. into the United Kingdom and has invited states and territories to partner with it in these activities. A similar approach could be taken with promotions of the BIIP program into key market countries with the costs shared by the exhibitors.

International competitiveness of the BIIP program. Australia's key migration competitors have programs similar to the BIIP. In making business migration decisions applicants will often consider and compare the migration options for several countries such as Canada, the United States, New Zealand and the United Kingdom. This comparison can include the visa criteria, both provisional and then permanent, and also the processing times. Currently BIIP processing time is in the order of approximately 6-8 months. While recognising the processing time has reduced over the past few years and is competitive with the processing times for migration competitors, a further reduction in processing time will boost the competitiveness of Australia's visa system internationally.

Genuine business people and investors will consider not only what they need to do to obtain permanent residency but also choose investments and business activities that will maximise returns. Within 6-8 months investment and business opportunities can evaporate, forecasts and projections become less reliable and economic conditions can change substantially.

The Northern Territory would like to see the processing time reduced further so as to ensure that investments and business activities that benefit the Northern Territory are realised.

2. Consider the conditions involved in the decline in rates of application for the BIIP, in light of rates of application for the previous Business Skills Program:

The Northern Territory recognises that since the introduction of the BIIP on 1 July 2012 there have been changes to the business and economic environment within Australia. A number of these are factors considered by business migrants when making migration decisions, factors which include:

- Economic activity and growth has increased. In the period from September 2012 to December 2013 GDP growth has increased 7.4%, with retail growth at 15%, construction 4.8% and mining 9.7%.⁶
- Australia remains a stable and safe place to do business. The Index of Economic Freedom World Ranking 2014 compiled by the Wall Street Journal and the Heritage Foundation ranks Australia as one of the top three countries to do business in for the sixth straight year.⁷
- The strength of the Australian dollar has decreased. The Australian dollar has dropped from parity with the US dollar to approximately 90c per US dollar.⁸
- Whilst the labour market has softened in the period since 1 July 2012, potential BIIP applicants are more interested in the overall economic and business conditions and business confidence rather than employment opportunities. As at December 2013 small to medium enterprise perceptions of the state of the Australian economy were at their highest level since November 2010. Business confidence was at its highest level since November 2011.⁹

The Northern Territory acknowledges that following the introduction of major changes to a migration program application rates traditionally drop off. However it is common for the application rates to recover within 6 to 8 months. The BIIP has been in place for over 18 months and despite favourable conditions there has been a significant decline in the rates of application for the BIIP since 1 July 2012.

The observed decline can be attributed to current policy settings for the BIIP being unattractive to potential migrants.

⁶ ABS Cat. No. 5206.0 Australian National Accounts

⁷ The Wall Street Journal and The Heritage Foundation, 2014 Index of economic Freedom, Austrade

⁸ OANDA.com

⁹ Sensis Business Index, December 2013

3. Evaluate the current eligibility criteria, with particular regard to the operation of the BIIP points test, and its effectiveness in selecting suitable migrants:

Quite clearly based on the current national application rates and the Northern Territory application rates, the current eligibility criteria is not selecting suitable migrants. The Northern Territory believes that the BIIP should be an effective tool for encouraging investment and business activity into areas of Australia where it is most needed. To achieve this, a number of policy changes are required, these include:

The removal of the points test. Currently the points test and its settings do not favour high calibre applicants without formal qualifications who have successful business backgrounds in the more 'traditional' areas of business. A points test cannot accurately assess applicants' business skills and attributes which are better gauged through an examination of the applicants' businesses. A points test, while administratively simple, is a blunt instrument. It is too prescriptive and tends to favour personal attributes rather than business achievements and capability.

State and territory governments and industry expressed concern when the points test was reintroduced with the advent of the BIIP. In particular the introduction of age, English language ability and qualifications as assessments for the BIIP were not viewed as particularly applicable to a program that sought to diversify and enhance business activity in Australia.

While a points based assessment system may be acceptable for assessing attributes of skilled migrants in the context of business migration where the focus should be on job creation and increasing business activity, diversity and investment such assessments tend to skew the results away from true business outcomes.

The NTG believes that for assessing the potential contribution of a migrant in terms of business growth, investment and job creation the points test approach has little value and therefore should be removed from the BIIP.

The removal of any English requirement. The current policy setting of the BIIP also appears to be at odds with the Australian Government's focus on building and strengthening economic links with Asian nations such as China, Japan, India, Indonesia and South Korea.

The Northern Territory's longer term economic development prospects are rooted in large resource and mining projects with investors coming from a range of countries including China and Japan. The Northern Territory Government has a strong focus on encouraging business investment from countries such as Indonesia, China and Japan and is opposed to any criteria in the BIIP migration program that is not supportive of new business, investment and trade initiatives with the countries to its immediate north.

Experience in the Northern Territory suggests that genuine business people who don't have good English language skills engage professional advisers and interpreters to assist them with their investment decisions and business developments. It also suggests that those who are fluent in languages other than English, particularly the languages of our key trading partners such as Mandarin and Chinese dialects,

Indonesian and Japanese, are able to produce quality business outcomes in the highly desirable areas of export and overseas market development.

The Northern Territory experience is that there is no direct link between English capability and the success of business migrants in terms of their business and economic contribution.

Maintaining mandatory state/territory nomination. The Northern Territory believes that maintaining mandatory state/territory nomination as one of the application criteria is essential to ensuring the best outcomes for the BIIP. Individual state and territory governments have a better understanding of the business and investment environment and economy in their individual jurisdictions. This is especially true for smaller states and territories such as the Northern Territory.

Mandating state and territory nomination provides an opportunity for the Australian Federal Government and individual state and territory governments to work together to ensure that both federal **and** state/territory development and investment goals are met.

The removal of mandatory state/territory nomination is likely to create an even greater focus on large metropolitan centres on the eastern seaboard by visa applicants.

Without a mandatory nomination process there would be no need for visa applicants to interact with state or territory governments. This approach would mean that the DIBP would be the only Australian government agency in contact with BIIP applicants and would transfer total responsibility for marketing and promoting the program and provision of investment and business facilitation services to those applicants to DIBP.

4. Weigh the size of the current BIIP program against the emphasis placed on other elements of the skilled stream of the migration program in generating economic growth:

The Northern Territory believes the BIIP program has a greater potential per applicant to generate economic growth than other elements of the skilled stream of the migration program. However, there is a much more limited pool of quality business persons and investors who would qualify for the BIIP.

Given the value of the contribution of business migrants to the Northern Territory in the past, the Northern Territory strongly believes that the BIIP program, as a relatively small component of the skilled migration program, should not be a capped program.

Summary

In a broader economic context, the appeal of regional areas to business migrants could be significantly increased by developing regionally-based migration incentives. An example is developing Special Economic Zones (SEZs), which would create financial incentives for migrants to invest and move to regional areas. The NT Government is discussing the development of SEZs with the Australian Government, and is keen to explore options which accelerate economic growth and development in Northern Australia.

Notwithstanding the need for fundamental Australian Government policy changes to encourage regional investment, changes to the BIIP are required if that program is to be a more effective tool to attract investment in the Northern Territory. The Northern Territory Government believes that BIIP has the potential to contribute significantly to the Northern Territory's development if the visa settings are adjusted to encourage investment and business activity away from the traditional migration destinations along the eastern seaboard of Australia.

Whilst we recognise that BIIP is a program of benefit to Australia as a whole we encourage the Australian Government to put into place policy settings to ensure that regional Australia particularly benefits from the program.

The Northern Territory Government considers BIIP, with the appropriate policy settings, has the potential to play an important role in supporting the development of Northern Australia with investment and employment opportunities. Accelerating the development of Northern Australia and the strategic importance of the Northern Territory in developing trade and new foreign direct investment so that all of Australia can realise the benefits is a key focus for both the Northern Territory Government and Australian Governments.

It is recommended that the Australian Government take a holistic view of migration as best policy outcomes will be achieved if the BIIP is considered as a whole and in reference to other skilled migration programs such as the General Skilled Migration program rather than as a disparate segment of the program.