# Submission to Senate Economics Legislation Committee inquiry into Future Made in Australia

July 2024

Centre for Policy Development

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CPD's core model is three-fold: we create viable ideas from rigorous, cross-disciplinary research at home and abroad. We connect experts and stakeholders to develop these ideas into practical policy proposals. We then work to convince governments, businesses, and communities to implement these proposals. CPD has offices in Sydney and Melbourne and a network of experts across Australia.

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# Executive summary

The Centre for Policy Development (CPD) welcomes the opportunity to make a submission to the Senate Economics Legislation Committee Inquiry into the Future Made in Australia Bill 2024 [Provisions] and the Future Made in Australia (Omnibus Amendments No. 1) Bill 2024 [Provisions]. We commend the Government on their approach to industry policy as an effective lever to achieve its goals of becoming a renewable energy superpower, pursuing net zero targets, and building a stronger, more diversified and resilient economy powered by clean energy.

This is a critical time for Australia. As countries worldwide implement their own industrial policy plans to accelerate the energy transition and strengthen competitive markets, such as the US Inflation Reduction Act and the European Union's Net Zero Industry Act, Australia must ensure it remains globally competitive. Supporting the development of new industries and leveraging Australia's unique competitive advantages can secure the nation's place in a changing global economic and strategic landscape.

CPD broadly agrees with the majority of the Government's Future Made in Australia agenda, particularly the use of a National Interest Framework to better align economic incentives with national interests and the application of community benefit principles to build local capabilities, enhance supply chains and skills, and promote diverse workforces and secure jobs. We also note several areas for improvement to ensure the agenda is as effective as possible in securing long-term benefits for all Australians, not just the economy.

In this submission, we offer seven recommendations for consideration designed to maximise Australia's competitive advantages, enhance support criteria, align various government frameworks, and ensure that the benefits are widely shared by the Australian public.

1. **Increase support for the development of new, pre-commercial technologies:** Future Made in Australia support should focus on both the development of new technologies and the scaling up of nascent markets through facilitation of financial flows to new industries.

2. **Strengthen the criteria for the selection of priority industries under the National Interest Framework:** The criteria for selecting priority industries under the National Interest Framework should be made more stringent. Public investments should strategically convert Australia's competitive advantages into long-term economic and climate benefits, ensuring that support is only provided where private investment is insufficient. For example, it is not clear that solar and battery manufacturing will be able to provide large economic benefits or secure, long-term employment after the initial set-up phase.

3. **Ensure alignment with the Sustainable Finance Taxonomy:** Eligibility for Future Made in Australia support under the Net Zero Transformation Stream should be aligned with the Sustainable Finance Taxonomy. Support should only be available for activities in the Green category, or classified as "decarbonise" or "substitute/replace" in the Transition category of the taxonomy. Additionally, eligibility for support should align with the Do No Significant Harm principles of the Taxonomy. This alignment ensures that Future Made in Australia funding supports genuinely sustainable and impactful projects.

4. **Set minimum guidelines for satisfying community benefit principles:** Minimum guidelines or thresholds should be established to ensure that community benefit principles are properly realised and that entities receiving support aren't incentivised to make minimal contributions. Aligning with the Sustainable Finance Taxonomy's

Minimum Social Safeguards criteria can enhance the social and environmental standards of supported projects.

5. **Include profit-sharing mechanisms when providing Future Made in Australia support to ensure "benefits are widely shared":** CPD recommends implementing profit-sharing mechanisms such as royalties or super-profit taxes where appropriate. This approach ensures public investments yield long-term returns for the community.

6. **Apply community benefit principles consistently across all relevant Commonwealth Government support mechanisms:** At a minimum, the Government should require investments by the Clean Energy Finance Corporation and National Reconstruction Fund as well as all components of the Australian Renewable Energy Agency (not just the Innovation Fund) to adhere to the conditions set out by the National Interest Framework and community benefit principles.

7. **Simplified access to funding:** Establishing a "front door mechanism" for large projects should be complemented by simplified access pathways for small and medium-sized projects. Coordinating investments at federal and state levels can streamline support, fostering innovation and commercial success.

# Future Made in Australia (Omnibus Amendments No. 1) Bill 2024

## Amendments relating to the Australian Renewable Energy Agency

CPD strongly supports the decision to expand the focus of ARENA to include electrification and energy efficiency technologies, alongside renewable energy technologies, as laid out in Schedule 2 of the Bill. Electrification holds great potential to reduce final energy demand because the efficiency of electric technologies is generally much higher than fossil fuel-based alternatives with similar energy services. Modelling from the Climateworks Centre shows energy efficiency is not only the cheapest way to reduce emissions, but is also an economic opportunity that creates savings for energy consumers and the energy industry.[1]

Care should be taken to carefully ensure that the types of industries supported by Future Made in Australia plans are consistent with Australia's comparative advantages or necessary from a strategic, national security perspective (the two primary areas of focus for the Act). For example, it is not clear that solar and battery manufacturing will be able to provide significant economic benefits or secure, long-term employment after the initial set-up phase.

It is also unclear if these industries will be able to remain competitive in the long term without ongoing public support. While the lack of diverse supply chains for technologies such as solar panels (with most of the world's solar panels being produced in one country, China) may present a concern for national security, the government may be better placed to increase diversification of these supply chains through other means, such as by buying from multiple countries.

> **Recommendation 1:** Increase support for the development of new, pre-commercial technologies

Future Made in Australia support should be available across the innovation ecosystem, and this should be explicitly stated in the Bill. There are two key components to the emergence of new industries: (1) the development of new technologies; and (2) the scaling up of nascent markets through facilitation of financial flows to new industries. The Commonwealth Government is currently placing considerably more emphasis on scaling up new industries through vehicles including the Clean Energy Finance Corporation and the National Reconstruction Fund, and consequently far less on developing technologies before they are commercially viable.

The amount spent by Australia on R&D as a percentage of GDP, as well as the proportional amount spent by Australian governments, are both lower than the respective OECD averages.[2] While we welcome the plans to increase funding for ARENA, ARENA should continue to focus most on technological innovation in order to best support both Australia's renewable energy goals and long-term economic growth. While industries for solar and battery manufacturing are not mature in Australia and will require short-term investment and support, the technologies are certainly not novel and unlikely to remain competitive in light of significant prior investment and development from other economies.

# Future Made in Australia Bill 2024

## National Interest Framework

**Recommendation 2:** Strengthen the criteria for the selection of priority industries under the National Interest Framework

CPD strongly supports the use of a National Interest Framework (as outlined in Part 2, Sections 7 and 8 of the Bill and expanded on in the Supporting Paper)[3] to better guide decisions on which priority industries to support. However, more stringent criteria should be applied in identifying priority sectors to ensure government support is used in the most efficient and effective way, and supports the long-term interests of the Australian economy.

CPD's 2023 report *Green Gold: A strategy to kickstart Australia's renewable industry future*[4] advised policymakers on how to make public investments that convert Australia's nascent competitive advantages into industries that support living standards and lay the foundation for prosperity in the post-carbon economy.

In this report, CPD advised that public investment should be strategically designed and targeted to ensure impact. A principled approach should be taken to the conduct of sector assessments to ensure that public spending achieves industrial, economic and climate outcomes. We compare the principles in CPD's *Green Gold* report to the National Interest Framework Supporting Paper below:

1. Any policy support should materially reduce economic risks associated with major capital investments in green export industries – such as by guaranteeing demand.

Treasury acknowledges (p. 8) that financial barriers such as high up-front capital costs exist. This is particularly true for first movers without a guaranteed market or market price for their product, who face considerable risk in committing their capital. One way the Government can help mitigate this risk is by using public procurement processes to create strong demand signals for emerging industries. For further information, see CPD's recent report on greening public procurement.[5]

2. The Government should achieve additionality by only making investments that would not have occurred without public resources. The Government should not provide large subsidies to projects that would already be economically viable through commercial capital markets.

No mention is made of the need to achieve additionality. We suggest stating this explicitly to ensure the identification of priority industries and projects takes into account market maturity and only directs support to the areas where it is most needed.

3. Where possible, policies should be designed to dynamically **address the marginal cost difference** between green goods and the prevailing market prices for fossil-fuel-based alternatives.

Treasury acknowledges (p.11) that in some instances "public investment that aligns with a cost-efficient 'green premium' may be justified." It should be made clearer that government support should only be provided for the marginal cost difference between the green good and the grey alternative to ensure that supported industries are not artificially propped up.

4. Interventions should **target specific parts of the innovation ecosystem and capital stack** that are not yet producing the technology, projects, or investments that are needed.

As new technologies are developed, they go through various stages including research, development, demonstration and deployment. The Government should take care to only provide capital at the stages of the innovation ecosystem where there is insufficient private sector investment.

5. Policies should be **front-loaded** in order to secure as many committed investment

dollars in the next 5 years as possible, although this may still mean most of the spending is beyond the forward estimates (e.g. in production tax credits or contracts for difference).

The Government should provide investment as early as possible, as efforts to reduce emissions earlier will have an outsized impact on Australia's carbon reduction goals compared with later interventions. Provisions for ARENA in the Bills are currently consistent with intentions to front-load investment.

6. Policies should be designed to phase out or sunset over time and **avoid ongoing reliance** on public subsidies.

P. 11 of the National Interest Framework Support Paper states that "policy support for industries identified under the Net Zero Transformation Stream should generally be time-limited, encourage early-movers and bridge the gap until an appropriate market signal is established or until the green premium in cleaner production costs shrinks." CPD agrees that policies should be time-limited and designed to phase out or sunset over time. This is crucial to avoid ongoing reliance on public subsidies, as has taken place in examples such as the LNG industry's reliance on export support and fuel tax credits.[6]

Further to this, CPD recommends that sector assessments specify quantifiable thresholds or points when public support is to run out or be phased down. For production tax credits for hydrogen and critical minerals, the Government intends to provide these credits for ten years for individual projects. This provides certainty for producers and investors, helping make their projects more bankable. However, it may be that in ten years' time, government support is no longer necessary for these industries to bridge the green premium.

An alternative to specifying a strict time limit may be to determine the magnitude of the green premium and prices for different sectors that are aligned with being price-competitive in the market. For example, according to ARENA, clean or renewable hydrogen will be cost competitive against fossil hydrogen at $2 per kilogram.[7] This would be a suitable target threshold that would signify the end of the need for government support. We recommend the Bill explicitly states that consultation and regular reviews must occur to determine the appropriate threshold for each sector under consideration.

7. Funding arrangements should be **simple** and clear for participants: there should be no ongoing uncertainty about whether a venture will be eligible for support.

There should be clear rules for companies wanting to access Future Made in Australia support schemes. Lack of clarity around eligibility risks limited uptake from industries and increased complexity for providers of support in identifying priority projects.

8. If the costs of developing new export industries are shared through public funding, the Commonwealth should **socialise the benefits** as well, sharing the upside across all Australians.

This is explained further below in the section on the community benefit principles.

## Provision of Future Made in Australia support

**Recommendation 3:** Ensure alignment with the Sustainable Finance Taxonomy

The Sustainable Finance Taxonomy has involved extensive work to define which economic activities are capable of significantly decarbonising the economy and supporting the transition to net zero.[8] Under Part 3, Section 12 of the Bill, we suggest adding that funding under the Net Zero Transformation Stream should only be available for activities in the Green category, or classified as "decarbonise" or "substitute/replace" in the Transition category of the taxonomy. Activities that are "phase down" or "out of scope" should not be considered for funding. As the taxonomy is not yet complete, the Bill should be clear that eligibility for funding should align with the final version of the taxonomy.

In addition, the Bill should require that supported projects comply with the "Do No Significant Harm" (DNSH) criteria of the Sustainable Finance Taxonomy. Still in development, the DNSH criteria will ensure activities that contribute to one environmental objective do not do significant harm to other environmental objectives.

**Recommendation 4:** Set minimum guidelines for satisfying community benefit principles

CPD supports the inclusion of community benefit principles as outlined in Part 3, Section 10. Currently, the Explanatory Memorandum provides examples of how projects could satisfy each of these principles. The principles could be strengthened by specifying minimum activities that recipients of FMIA support would need to conduct to satisfy them. Without this, entities may have an incentive to make minimal contributions to ensuring that communities benefit as any additional efforts may present monetary costs.

We recommend aligning these guidelines with the Minimum Social Safeguards (MSS) outlined in the Sustainable Finance Taxonomy, which is currently out for consultation.[9] The purpose of MSS is to ensure that companies engaging in taxonomy-aligned activities adhere to a set of defined social standards and guidelines. The MSS criteria are still being developed but are expected to: address environmental impacts like pollutants, water use etc, establish a strong baseline for engagement and consent with Indigenous communities, and embed consideration of circularity to achieve sustainable production and ensure materials are circulated at their highest value. Community benefit principle guidelines should ensure alignment with the final version of the Taxonomy's Minimum Social Safeguards.

Another option is to simplify the process for government entities, making it easier for them to select projects that satisfy the community benefit principles. One option could be to include a marginal incentive (say, an additional 10% or 20%) alongside subsidies or other support if firms site themselves in transition-affected communities, or if they employ a certain level of local apprentices and trainees.

**Recommendation 5:** Include profit-sharing mechanisms when providing Future Made in Australia support to ensure "benefits are widely shared"

P. 2 of the Bill states that the Future Made in Australia agenda will ensure the "benefits are widely shared". If the Commonwealth Government (and taxpayers more broadly) shares the costs of developing new green industries with private enterprises through government spending, then the benefits should also be shared. This applies both to the long-term profits from successful enterprises as well as the secondary benefits of industrial activity. Large-scale government support that is not expected to be repaid brings about a redistribution of resources to private companies through taxpayer subsidisation. Australia should learn from past mistakes where privately owned (and often foreign owned) firms have enjoyed the lion's share of profits from national resources. For example, despite considerable government support for the development of the petroleum industry, the Australian public has only received a very small share of the revenues.

There are many ways that the Government could lock in a return for the public from Future Made in Australia support, with the most appropriate option depending on the sector. Royalties or super-profit taxes could apply to resource extraction (eg. for critical minerals). Special royalties on renewable energy (eg. solar and wind) or mineral processing (instead of extraction) make less sense, because these activities do not deplete finite resources. The 2022 Queensland Budget introduced royalties for coal to ensure that Queenslanders benefit when coal prices are high, and legislation was introduced to Queensland Parliament in May 2024 to prevent subsequent governments from decreasing the royalty rate for coal.[10]

An alternative approach is to lock-in a public share of ownership on a project-by-project basis. The most direct version of this would be for the Government to require recipients of support to pay back a certain amount of profits over the long term. For example, grants could be repayable if the project is successful or the Government could take an equity stake in the projects it supports.

A domestic reservation mechanism could ensure adequate supply in the domestic market for goods that can be exported (eg. critical minerals and hydrogen). Without this mechanism, exporters are able to defer the risks of meeting export production schedules to domestic consumers amidst the temptation of higher prices abroad. The WA Government's Domestic Gas Policy ensures that LNG exporters make the equivalent of at least 15% of exports available to consumers in WA; contrastingly, the lack of such a policy has contributed to severe constraints on gas supply on the east coast of Australia.[11]

Some government programs in other countries recoup a financial return from industry in exchange for public sector investment:

- New Zealand's Deep Tech Incubators program channels funds towards large R&D projects in advanced scientific and engineering technologies. Firms receive a minimum of NZ$1 million in grants and must make repayments up to NZ$750,000 when they start generating revenue, regardless of how long it takes to repay the grant.[12]
- The Innovatiekrediet Program in the Netherlands provides loans for projects from across the innovation cycle, from clinical trials, validation and testing to later-stage development projects.[13] If the project is successful, the principal and interest must be repaid after the project ends.
- Israel provides tax exemptions for R&D projects of Israeli companies in return for shares in the company.[14]

These are all effective options the Government should consider to ensure Future Made in Australia support provides benefits that are properly realised and widely shared.

**Recommendation 6:** Apply community benefit principles consistently across all relevant Commonwealth Government support mechanisms

Section 10 (2) of Part 3 of the Bill sets out the definition for Future Made in Australia support, including the entities that will be responsible for delivering the support. Notably, the Bill does not require all relevant Government programs or industry support to be guided by the National Interest Framework or to apply the community benefit principles. The rationale for this choice is unclear. The National Interest Framework establishes clear guidelines for the identification of projects where the Government should intervene to attract private investment; the community benefit principles ensure that the support and actions of private firms do not place undue burdens on local communities. There do not appear to be sound reasons for why the frameworks established under Future Made in Australia should not apply consistently across all relevant support mechanisms, not just for those currently conceptualised as relevant support. At a minimum, the Government should require investments by the Clean Energy Finance Corporation and National Reconstruction Fund as well as all components of the Australian Renewable Energy Agency (not just the Innovation Fund) to adhere to the conditions.

## Other

> **Recommendation 7:** Take steps, such as a "front door mechanism", for large, transformational projects, to simplify access to funding for small-medium-sized projects in the pre-commercial stages of technology development

The front door mechanism as it is currently conceived will "provide a single point of contact for investors and companies with major, transformational investment proposals" (pp. 2-3). However, the system for industry development is currently very complex for all types of projects, not just large ones. Various government initiatives exist to provide support to the development of new, pre-commercial technologies, and many of these initiatives have overlaps in their focus areas. A clean energy technology that is being trialled under different conditions could plausibly access finance from ARENA, the NRF or even CSIRO. As Industry Innovation and Science Australia reports, the lack of cohesion and coordination between and across state and federal government programs leads to diluted resources, reduced competition, delays in getting to market, and overall reduced commercial success.[15]

A "front door"-like mechanism should over time help to coordinate investment for differently-sized projects across the different stages of new industry development. As there are fundamental differences between large and small projects, including different types of investment, planning and community concerns, there could be different divisions within the door.

Alternatively, the Commonwealth Government could work together with State governments to establish separate pathways to coordinate smaller investments to engage with the system in a simplified way. This might involve establishing place-based clusters that bring together businesses spanning different sectors to bridge the gap between research and industry. For example, the UK Catapult Network brings together nine technology and innovation centres with more than 65 physical locations across the UK.[16] Each cluster is for a different industry, for example offshore renewable energy, energy systems and high value manufacturing, and has a unique purpose and innovation priorities, and at least one physical location.

# Endnotes

[1] G Currie, ''Negawatts' will enable the energy transition in Australia', Energy Magazine, 2023.

[2] CPD analysis based on: 'Gross domestic spending on R&D (indicator)', OECD, 2024; 'Government budget allocations for R&D', OECD, 2024; 'Annual GDP and components - expenditure approach', OECD, 2024.

[3] *Future Made in Australia National Interest Framework: Supporting paper, Australian Government*, Treasury, 2024.

[4] T Phillips, *Green gold: A strategy to kickstart Australia's renewable industry future*, CPD, 2023.

[5] T Phillips, M Hammerle and D Venning, *Green goods: Strategies for decarbonising government purchasing in Australia*, Centre for Policy Development, 2024.

[6] R Campbell, et. al., *Fossil fuel subsidies in Australia 2024*, The Australia Institute, 2024.

[7] 'Australia's pathway to $2 per kg hydrogen', ARENAWIRE, 2020.

[8] *Australian Sustainable Finance Taxonomy v0.1*, Australian Sustainable Finance Institute, 2024.

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[11] O Yates, 'How Australia created its own gas price mess', Renew Economy, 2022.

[12] 'Deep Tech Incubators', Callaghan Innovation, 2024.

[13] 'Innovatiekredit', Catalyze, 2022.

[14] *'The Israeli parliament has enacted the Law for Encouragement of Knowledge-Based Industry'*, Pearl Cohen, 2023.

[15] *Barriers to collaboration and commercialisation*, Industry Innovation and Science Australia, 2023.

[16] 'About the Catapult Network', Catapult Network, 2024.

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