Australian Chamber of Commerce and Industry

PRE-BUDGET SUBMISSION 2021-22

January 2021

Table of Contents

Summary of Recommendations

ACCI's submission to the 2021-22 Budget provides actions and policies for Government to consider that can be implemented in the short term to enable business to deliver the productivity gains that will help lift the economy's growth and real wages.

Our recommendations aim to:

- Remove, or at least reduce, distortions and barriers that impose unnecessary regulatory and tax burdens on business activity.
- Promote efficient public and private sector investment.
- Enable business to benefit from innovation, including new technology and better business practices.
- Provide the necessary skills along with a more mobile and flexible work force to maximise participation in the economy.
- Deepen and broaden the scope and scale of Australia's international trade and investment relations.

Ensuring a policy environment that gives business the ability to invest, grow and employ is critical to achieving and sustaining Australia's economic recovery from the COVID-19 pandemic.

ONGOING SUPPORT FOR BUSINESSES AFFECTED BY COVID GOVERNMENT RESTRICTIONS

- Government introduces a new program of wage subsidy support to operate from 1 April 2021, targeting businesses heavily impacted by international and state border closures and gathering restrictions with the policy objective of preserving future jobs and skills:
  - The wage subsidy support would operate via payroll but in addition to a reduction in turnover, the business confirms they are highly impacted by restrictions imposed by Government to manage COVID-19.
  - Two turnover thresholds, one at a one third reduction in turnover and one at a two thirds reduction compared to either the same quarter in 2019 or 2020.
  - Continues for as long as restrictions are in place and these businesses are still experiencing this level of revenue impact.
  - IR flexibilities retained.
  - Eligibility tested quarterly.
  - The subsidy would be $450 per week per Tier 1 eligible employee for business one third down and $700 per week for businesses two thirds down (employees less than 20 hrs/wk would be proportionately less).
  - Eligible staff are those employed on or before 1 January 2021.

REFORMING AUSTRALIA'S TAX AND TRANSFER SYSTEM

- The Council of Federal Financial Relations begin the process of comprehensive tax reform across Australia's two-tier system, with the aim of delivering a structurally stronger, fairer and more efficient tax and transfer system over the long term.

PAYROLL TAX REFORM

- The Commonwealth take on a leadership role, working with the state and territory governments to include reform of payroll tax on the agenda of the Council of Federal Financial Relations by the end of 2021, with the ultimate aim of abolishing it.

INEFFICIENT TAXES ON GOOD AND SERVICES

- During the economy's recovery from COVID, remove FBT on entertainment-related expenses and activities directly related to attending work, to stimulate consumption and support employment in sectors hardest hit by COVID-19 trading restrictions.
- Abolish the LCT to stimulate car sales and improve environmental performance.
- Continue ongoing efforts to shut down the black market in tobacco products and increase the collection of excise revenue.

INNOVATION AND R&D

- Re-calibrate the balance between direct and in-direct Government research and development (R&D) support with the aim of increasing total public and private sector R&D expenditure to 2.5% of GDP by 2025.
- Increase funding for industry-research collaboration through Cooperative Research Centre (CRC) grants or R&D collaboration premiums and re-orientate the research programs to focus on delivery of commercial outcomes.
- Build on CSIRO's national missions program to establish grand-scale national missions that address major societal, environmental and industry challenges and drive industry collaboration, innovation, productivity, job creation and new markets.
- Create a more resilient economy by increasing the economic complexity of industry sectors and diversifying export markets.

DEREGULATION AND REGULATORY REFORM

- Prioritise and adequately resource the adoption of a user-centric approach to the development, design and implementation of regulation across the whole of Government to ensure regulations are fit-for-purpose, meet community expectations and make it easier for business.
- Work with states and territories to simplify and streamline the major project approvals, setting targets for approval times and performance reporting and subjecting fewer proposals to Foreign Investment Review Board (FIRB) assessment.
- Shift the collection of all remaining border-related customs duties to the regular BAS reporting process to ease the administrative burden on business.

- Impose greater accountability requirements on the cost recovery process for regulatory agencies and ensure incentives are in place to drive efficient regulation.

ENERGY

- Work through the Energy NCRC to achieve a national agreement that integrates energy and carbon emissions policies to provide the long-term certainty necessary for private investment in major energy projects.
- Work more cooperatively with state and territory governments through the Energy NCRC to better coordinate the development of renewable energy generation infrastructure and regulation of emerging technologies.
- Legislate and implement the rule changes for embedded networks to give all electricity customers access to competitive retail networks.

INFRASTRUCTURE SPENDING

- Work with states, territories and local government to more efficiently and effectively deliver investment identified in Infrastructure Australia's Infrastructure Priority List.
- Provide incentives to state and territory governments and local councils to improve procurement practices, such as adopting new developments in auction design that enable packaging of bidding for contracts, to increase competition by enabling a larger number of smaller contractors to bid for projects.
- Finance public infrastructure through the issuing of government securitised infrastructure bonds.

DIGITALISATION, TECHNOLOGY ADOPTION AND CYBER SECURITY

- Encourage greater investment in technology and digital innovation by establishing a business ICT Modernisation Fund to help businesses move from legacy ICT systems to more modern capabilities.
- Foster growth of the domestic cyber security talent pool and seek opportunities to export cyber security products and services to the world.
- Create public-private sector partnerships to drive investment in next generation 5G technology in critical and high-growth industries.
- Establish a Smart Cities taskforce to develop cyber-physical solutions to improve the productivity, safety and mobility of goods and individuals across urban areas with a focus on the commercialisation of novel solutions to address safety and congestion.

CIRCULAR ECONOMY

- Task the Productivity Commission to undertake a comprehensive review of how Australia could transition to a circular economy. The review should assess the economic benefits available to Australia from moving to a circular economy and the economic, technical and institutional barriers that may need to be overcome.

SKILLS AND TRAINING

- Commit to long term, consistent funding for VET which delivers real funding increases that ensures the economy's skill needs are confidently met.
- Extend the apprenticeship wage subsidy beyond March until 31 December 2021 at 50% for those businesses would have otherwise been eligible for JobKeeper had it continued, and at a tapered rate for other businesses.
- Extend the Boosting Apprenticeship Commencement incentive until 31 December 2021.
- Establish a National Apprenticeship Advisory Board.
- All Training Package Diploma and Advanced Diplomas should be eligible for VET Student Loans.

EMPLOYMENT

- JobSeeker revert to the indexed pre-COVID JobSeeker (Newstart) rate from 1 April 2021 for those who have been unemployed for less than 12 months.
- The $150 per fortnight supplement is retained for a further 12 months or until unemployment drops below a specified benchmark for those who were unemployed prior to the end of March 2020.
- That all unemployed persons who need to pay for an internet connection and services receive a supplement to specifically cover these costs, or if this is administratively difficult that the base rate is increased to cover these expenses.
- Consider a holistic approach to youth unemployment that combines the redesigned PaTH, Transition to Work, apprenticeships, proven youth programs, and fully subsidised VET training in qualifications that lead to jobs in demand.
- Financially reward PaTH training providers for work experience, internship placements and job outcomes of young job seekers participating in their programs.

HIGHER EDUCATION

- Ensure higher education students are aware of the potential employment and salary outcomes of their study choices by appropriately funding the promotion of the QILT/ComparEd website.

MIGRATION AND POPULATION

- Restore Permanent annual migration levels to 190,000.
- Halve the SAF Levy for temporary and permanent employer nominated visas.
- Improve the refund policy for the SAF levy so that a refund is available in all cases where the application has not been successful.

WORKPLACE RELATIONS

- Pass the Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2020, subject to amendments recommended by ACCI and its members.
- Beyond the balanced, but moderate package of immediate priority changes already before Parliament in 2021, priorities for further reform should include:
    - Evaluating the performance of Australia's industrial relations system against those in comparable OECD countries, identifying strengths and weaknesses, and opportunities for reform. This should include critically examining whether the level of prescription and regulation in Australia is delivering better outcomes for employment, equity and the protection of fundamental rights and interests.
    - Genuinely simplifying, and further reforming enterprise bargaining to ensure agreement making is simplified, employers and employees have more agreement making options that are more appropriate to their circumstances and priorities, and protections and safety nets are better focused on employees who most need them, and do not over complicate or needlessly discourage bargaining.
    - Delivering greater clarity and flexibility in industrial awards to better clarify the role, content and prescription of modern awards.
    - Restoring balance to unfair dismissal laws, by ensuring employers are supported in terminating the employment of employees found to have breached safety and/or community standards of conduct.
- Ensure institutions and services responsible for supporting and implementing these changes (the Fair Work Commission and Fair Work Ombudsman) are adequately resourced for their expanded roles.

WORK HEALTH AND SAFETY

- Reinstate funding for industry engagement on work health and safety to ensure the ongoing safe and productive operation of Australian workplaces as we transition to COVID Normal.

TRADE

- Remove remaining import tariffs and shift all other border related revenue collection to the regular BAS reporting process.
- Implement a Trade Community System to reduce the costs of doing business in Australia for businesses to remain internationally competitive.
- Export Market Development Grants (EMDG) funding to again be elevated to $200 million annually for the next budget and for the forward estimates.
- Work with industry more collaboratively to assist and support more Australian companies to become internationally engaged, especially SMEs.

- Increase efforts to assist businesses to understand the details of trade agreements in order to realise their potential.
- Implement a new support package for exporters and reliance industries to secure new and greater market penetration in foreign markets.

Introduction

In 2020, the Australian economy experienced a year like no other with ongoing drought in many regions, devasting bushfires and a pandemic.

At the start of 2020, as the Australian economy entered its 29th year of continuous growth, the rate of growth was around the weakest since the Global Financial Crisis and almost 1.0% below trend over the last decade despite strong population growth. On a per capita basis the economy was hardly growing. The economy was operating well below potential output.

Weak economic conditions intensified in the first quarter of 2020 with the spread of the bushfires and then the economy was hit with the COVID-19 pandemic.

Although there was massive support from the Government and the Reserve Bank through fiscal and monetary policies to alleviate the economic impact of restrictions on the movement and gathering of people, COVID-19 ended almost 30 years of sustained economic growth. So far, the economic recovery out of recession is exceeding most people's expectations.

To reduce any long-term scarring to the economy from the pandemic and effectively address the underlying economic weakness that existed prior to it, the recovery from COVID-19 will continue to need a strong policy response from Government. Improving the economy's competitiveness and enabling business to lift productivity and drive economic growth will require removing impediments and increasing the incentives for individuals and businesses to engage in economic activity and be innovative. There has never been a more important time for policies that support business in delivering strong, inclusive job creating growth.

It is also important that Government continues to increase the efficiency and effectiveness of the public service. The pandemic has clearly demonstrated the benefits to the Australian economy of an agile public service willing to engage closely with the business sector in the delivery of outcomes.

ACCI's submission to the 2021-22 Budget provides actions and policies for Government to consider will enable business to deliver the productivity gains that will help lift the economy's growth and real wages. Our recommendations aim to:

- Remove, or at least reduce, distortions and barriers that impose unnecessary regulatory and tax burdens on business activity.
- Promote efficient public and private sector investment.
- Enable business to benefit from innovation, including new technology and better business practices.
- Provide the necessary skills along with a more mobile and flexible work force to maximise participation in the economy.
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Ensuring a policy environment that gives business the ability to invest, grow and employ is critical to achieving and sustaining Australia's economic recovery from the COVID-19 pandemic.

Economic Overview

The September quarter National Accounts showed a strong 3.3% rebound in real GDP growth despite a 1.2% contraction in Victoria, driven mainly by a solid increase in household consumption and increased public spending. At the end of the September quarter Australia's GDP was 4.2% below its December 2019 peak.

The Government's Mid-Year Economic and Fiscal Outlook forecast real GDP to grow by 4.5% in 2021 on the back of expected improvements in business and consumer confidence flowing through to growth in consumption and investment.

On balance, there are good reasons to be cautiously optimistic about the economic outlook. Providing COVID-19 case numbers remain low, major shut-downs are avoided, and the threat of the virus is reduced through an effective vaccination program, the economy will continue to recover over 2021. The October 2020 Budget measures along with the very accommodative monetary policy being adopted by the Reserve Bank will provide significant support to the economy this financial year and through 2021-22.

Both business and consumer confidence are bouncing back along with a pickup in economic activity as restrictions are eased. We are seeing a rebound in household consumption in response to pent-up demand and lead indicators for business conditions are improving. The strong recovery in private sector demand is occurring at a time when there are massive amounts of fiscal stimulus from the federal and state governments to support household and business balance sheets. Household consumption should continue to be supported by high confidence and the ability to drawdown significant accumulated savings as the direct financial support to households and businesses is wound back over the remainder of 2020-21.

It is expected to take at least two years to get unemployment back below 6% and wage growth will remain weak while there is slackness in the labour market. Both the Government and RBA continue to focus on ensuring fiscal and monetary conditions, respectively, are favourable for jobs growth. The latest unemployment figures show that 9 in 10 jobs have recovered at the outset of the pandemic, with the December unemployment rate edging down to 6.6%.

The roll out of a comprehensive vaccination program sooner than expected raises the prospects of more certainty in easing restrictions within our national border. It is to be hoped that it will bring about at least a partial return of migrants, tourists and international students sometime in 2021, which will further support aggregate demand over the next financial year.

Although the economic outlook has significantly improved over recent months, as the Reserve Bank Governor has reminded us, the economic road ahead will be bumpy, and uncertainties will remain for some time. The economy has some way to go before it fully recovers from COVID-19, and some sectors impacted by the gathering and movement restrictions have an even longer path to recover.

Business needs to see where the demand for products and services will come from before overly committing to investment and increasing employment. Therefore, Government expenditure on goods, services and public investment will have an important role to play in both boosting aggregate demand until we are well within the recovery phase, and ensuring we have the productivity enhancing infrastructure in place to support longer term growth. The 2021-22 Budget provides Government with the opportunity to build on the October 2020 Budget and further strengthen economic growth through a business-led recovery.

Longer term, Australia's prosperity is heavily dependent on significant reforms to lift the economy's productivity performance. It is essential that opportunities to increase productivity are identified and acted upon by Government as quickly as possible. ACCI continues to call on the Federal and state and territory governments to begin the task of implementing the supply-side reforms identified by the Productivity Commission that will enable the economy to grow faster and stronger and provide the much-needed employment opportunities during the recovery and beyond.[1]

In the wake of the October 2020 Budget, hope has faded that the economic impact of the pandemic would drive the urgency for fundamental economic reform to lift Australia's poor productivity growth. Most of the heavy lifting to improve productivity rests with business and infrastructure investment. However, we must make sure that a brighter outlook as the economy recovers from COVID-19, due to the success of both household and business support measures and our ability to contain the virus, does not reduce the perceived need for Government making a start on bold economic reforms.

As was the case in the 1980s and 1990s, we need a further round of reforms that will give the economy the structure, flexibility and entrepreneurial culture to create the dynamism, resilience and competitiveness needed to boost economic growth after the pandemic and allow business to meet the challenges and seize the opportunities over the coming decades.

Ongoing support for Businesses Affected by COVID-19 Restrictions

JobKeeper has been highly successful in meeting its objective of providing across-economy support for businesses struggling under the impact of Australia's first COVID wave, a struggling economy, the subsequent Victorian wave and the severe restrictions placed on individual workplaces. By maintaining a connection with their employees, businesses were able to quickly get back up and running when the restrictions were eased.

Although JobKeeper will cease at the end of March 2021, there are businesses in some sectors of the economy that will continue to be heavily impacted by Government restrictions, such as the closure of international and state borders. It must be recognised that many of these businesses have made significant investment in people and assets and

[1] https://www.pc.gov.au/inquiries/completed/productivity-review/report

have limited scope to diversify their operations. They also made a significant contribution to the Australian economy before the pandemic. When they can operate normally, these businesses will quickly return to a strong financial position and will once again contribute to our prosperity. For the time being, they will need ongoing financial support.

Recommendation

- Government introduces a new program of wage subsidy support to operate from 1 April 2021, targeting businesses heavily impacted by international and state border closures and gathering restrictions with the policy objective of preserving future jobs and skills:
    - The wage subsidy support would operate via payroll but in addition to a reduction in turnover, the business confirms they are highly impacted by restrictions imposed by Government to manage COVID-19.
    - Two turnover thresholds, one at a one third reduction in turnover and one at a two thirds reduction compared to either the same quarter in 2019 or 2020.
    - Continues for as long as restrictions are in place and these businesses are still experiencing this level of revenue impact.
    - IR flexibilities retained.
    - Eligibility tested quarterly.
    - The subsidy would be $450 per week per Tier 1 eligible employee for business one third down and $700 per week for businesses two thirds down (employees less than 20 hrs/wk would be proportionately less).
    - Eligible staff are those employed on or before 1 January 2021.

Rationale for Proposed Policy

ACCI recognises that JobKeeper was intended to be a temporary scheme to provide support for businesses impacted by the government restrictions imposed to control the spread of the virus. With the scheme originally proposed to cease at the end of September 2020, industry welcomed its extension to 28 March 2021. This reflected the fact that many businesses were still heavily impacted by the government restrictions, including at the time a second wave of COVID in Victoria.

With the JobKeeper scheme scheduled to conclude on 28 March 2021, it is necessary to look at how to best support businesses that continue to be impacted by Government restrictions post-March 2021. The most important support that can be delivered to business is through:

- certainty in the way state and territory governments respond to COVID cases in accordance with an updated national framework;
- a clear path to reopening international travel that appropriately manages the health risk; and

- effective roll out and implementation of vaccine.

This support will take time to deliver, but in the meantime, it is essential that financial support beyond March 2021 be targeted to businesses that:

- were successful economic contributors and job generators prior to the pandemic;
- through no fault of their own are still being significantly impacted by government-imposed restrictions on the movement as well as the gathering of people; and
- would be of high value to the economic opportunities that arise as Australia and the world come out of the crisis - in other words we are preserving future jobs.

ACCI's proposal for support post March 2021 for businesses that continue to be impacted by government-imposed restrictions involves two tiers of wage subsidy support relating to the size of the impact on business turnover (compared to either the same quarter in 2019 or 2020 – at the business' discretion).

- Businesses experiencing a third or more reduction in turnover would receive support at $450 per week per employee. It is to be hoped that with the roll out of the vaccine, open state and territory borders and an increase in gathering sizes, the number of businesses requiring this support will diminish relatively quickly.
- Businesses experiencing two-thirds or higher reduction in turnover would receive support at $700 per week per employee. This group will include those businesses heavily reliant on international travel. Although they would most likely have reduced their workforce in the past year, they are trying desperately to hang on to their most highly skilled workers who will be most needed when restrictions ease. Support below this rate per employee will make it very difficult to hold onto these workers beyond the March quarter.

Businesses also require the temporary flexibility provision amendments to the Fair Work Act 2009 (FWA) to be extended. Where a business's operations have been disrupted, such that it is no longer undertaking the same activities or operating the same hours or days as it was prior to the pandemic, employers need the flexibility to give directions or request employees change their times, days or location of work and or the activities they undertake.

ACCI believes that this proposal reflects what is fair and appropriate to deliver ongoing support to businesses that are in a perilous position through no fault of their own.

Reforming Australia's Tax and Transfer System

Improving Australia's tax and transfer system must be a priority for all Australian Governments if we are to create the jobs, dynamism, resilience and competitiveness the economy will need to lift economic growth over the long term. Comprehensive tax reform will require the Commonwealth, state and territory governments working together to agree on and implement changes to the tax and transfer system that remove impediments and increase the incentives for individuals and businesses to engage in economic activity, seize opportunities, and be creative and innovative.

Recommendation

- The Council of Federal Financial Relations begin the process of comprehensive tax reform across Australia's two-tier system, with the aim of delivering a structurally stronger, fairer and more efficient tax and transfer system over the long term.

Rationale for Proposed Policy

For over two decades the task of meaningful tax reform has been deferred by Governments. Since the turn of the century, there has been no shortage of major reviews of the tax system to identify what needs to be done, including *The Australia's Future Tax System Review* 2010 (The Henry Tax review), *Re:think – Tax Discussion Paper* 2015 and *NSW Review of Federal Financial Relations* 2020. These Reviews highlight that Australia's tax system is replete with inequities resulting from the way labour, land and capital are each taxed and the array of tax expenditures in the form of exemptions, deductions, concessions and deferrals. The system is too reliant on unsustainable and distortionary taxes that disincentivise individuals and businesses. However, Governments have been unwilling to make the difficult and sometimes unpopular decisions necessary to bring about meaningful tax reform and have focused on the more popular changes to personal income tax rates.

Achieving comprehensive tax reform that supports federal and state budgets over the long-term, while addressing distributional impacts and promoting economic growth, is not easy and will take time. This challenge should not prevent both tiers of Government committing to the need for tax reform and making a start.

The massive fiscal support from governments in response to the COVID-19 pandemic along with the need for ongoing stimulus and a pronounced reduction in what was already shrinking revenue, means that a protracted process of budget repair lies ahead. If we are to successfully reduce the tax burden falling on future generations, then it is imperative that the underlying structural weaknesses in governments' budgets are addressed and the necessary incentives are in place to reward risk taking and effort.

Despite Australia having a consumption tax in the form of GST, the Commonwealth still relies on income taxes, including company income tax, for about two-thirds of its tax receipts. The heavy reliance on income tax relative to a consumption or value added tax is in sharp contrast to many other advanced economies. Australia relies on income tax for 64% of total tax revenue, with the 2nd highest reliance on personal income tax (40.6%), 3rd on company tax/corporate profits (18.5%) and 3rd on payroll tax (4.8%). In contrast, Australia ranks 30th in its reliance on value added taxes (such as the Goods and Services Tax), at 26% compared to the OECD average of 32.4%.

Along with considering the role of income and consumption taxes in ensuring Australia has the necessary tax base to sustainably support government spending, a strong focus of tax reform must be on how the tax system can improve the competitiveness and productivity of Australian businesses. Achieving this outcome is critical to the Australian economy having a business-led recovery out of the COVID-19 pandemic.

To increase the efficiency and accountability of the tax system, any significant tax reform will also need to address both the system of horizontal fiscal equalisation, which transfers GST between the states and territories, and the vertical fiscal imbalances (in the form of mismatches in how revenue is sourced and spent) that result from differences in the roles and responsibilities of different levels of government.

Achieving comprehensive tax reform that supports federal and state budgets over the long term, promotes economic growth and is politically acceptable will take time. That should not prevent all levels of government committing to the challenge of tax reform and making a start. Australian businesses need a tax system that will deliver the right mix of incentives that will enable them to be globally competitive, invest in their future, seize growth opportunities and create jobs.

Payroll Tax Reform

The primary concern of the Commonwealth Government in the post COVID-19 recovery is jobs growth. If Australia is to have a sustainable job creating business-led recovery, the cost of doing business must be kept as low as possible. This includes the tax burden on business.

An obvious place to start on tax reform is the vexed issue of payroll taxes, which puts downward pressure on wages and deters businesses from employing more staff. To achieve any meaningful reform requires the Commonwealth to play an active role, ensuring states and territories are assisted, not penalized, for undertaking productivity enhancing reforms on payroll tax.

Recommendation

- The Commonwealth take on a leadership role, working with the state and territory governments to include reform of payroll tax on the agenda of the Council of Federal Financial Relations by the end of 2021, with the ultimate aim of abolishing it.

Rationale for Proposed Policy

While payroll tax is a state and territory tax, as highlighted in the final report of the *NSW Review of Federal Financial Relations* 2020, achieving reform requires inter-governmental cooperation. The Commonwealth must play an active leadership role, through the Council of Federal Financial Relations (CFFR), to assist the states and territories make significant changes.[2]

State and territory governments rely heavily on payroll taxes for revenue and face the challenge of looming fiscal gaps as expenditure grows faster than revenues. Therefore, any changes in payroll tax cannot be considered in isolation – the lost revenue must be replaced by an alternative source of revenue.

[2] NSW Government (2020). *NSW Review of Federal Financial Relations: Supporting the road to recovery.* Final Report August 2020: https://www.treasury.nsw.gov.au/four-pillars/federal-financial-relations-review/federal-financial-relations-review-final-report

The transition costs from the funding shortfall and rigidity of the horizontal fiscal equalisation system represent the biggest obstacle to payroll tax reform. Under the horizontal fiscal equalisation system, the states and territories are unable to retain all of the dividends of any reforms they make to payroll tax.

As a first step, the Commonwealth should show leadership by working with the states and territories to include payroll tax reform on the Council of Federal Financial Relations agenda by the end of 2021. Initially, the Council of Federal Financial Relations should focus on reducing the administrative and compliance burden of payroll taxes on business. The longer-term goal should be to abolish payroll tax.

Reducing the burden of payroll tax on business is not only an important start to broader tax reform, but is necessary to support business activity, jobs and wages growth that will drive the economic recovery.

Inefficient taxes on goods and services

Although comprehensive tax reform is a longer-term objective, in the short-term there is scope for Government to reduce reliance on inefficient taxes on goods and services to stimulate consumer demand and support the economic recovery. Inefficient taxes that impede demand should either be removed during the economy's recovery from COVID or abolished.

Recommendation

- During the economy's recovery from COVID, remove FBT on entertainment-related expenses and activities directly related to attending work, to stimulate consumption and support employment in sectors hardest hit by COVID-19 trading restrictions.
- Abolish the LCT to stimulate car sales and improve environmental performance.
- Continue ongoing efforts to shut down the black market in tobacco products and increase the collection of excise revenue.

Rationale for Proposed Policy

Fringe benefits tax (FBT) represents a significant cost to businesses but only provides a small contribution to the overall tax take (0.85% of total tax revenue in 2018-19). It is levied on non-cash benefits an employer provides to an employee and is paid by the employer at the employee's top marginal personal income tax rate, which is significantly higher than the corporate tax rate. FBT involves a considerable amount of red-tape and adds administrative costs to businesses.[3]

The removal of FBT on entertainment and activities directly related to attending work as the economy recovers from COVID will facilitate the return to work, increase employment and stimulate economic activity (particularly in commercial centres). The removal of

[3] Australian Chamber of Commerce and Industry (2004) *Tax Reform Blueprint.*

entertainment-related FBT, has the potential to boost spending in sectors hardest hit by the COVID-19 shutdowns, such as restaurants and cafes. In addition, removing FBT on activities directly related to an employee attending work, such as childcare and carparking, will make it easier for employees go back to the workplace, particularly in Sydney and Melbourne CBDs.

There is no longer an economic rationale for the luxury car tax (LCT). It is simply an additional cost borne by consumers that changes their decision on the type of vehicle to purchase. Despite the increase in the threshold for the LCT being lifted by relatively more for “fuel efficient” cars, it is still leading to perverse outcomes as most hybrid and electric vehicles are more expensive than their petrol and diesel competitors and exceed the LCT threshold. Many vehicles used for business purposes, such as four-wheel drives and utes used by farmers and tradies, are also subject to the tax. The contribution of the LCT to the overall tax take is negligible ($688 million in 2018-19 or 0.15% of total tax revenue) yet its impact on car purchases is substantial.

At a time when the automotive industry is being severely affected by weak demand, removal of the LCT would provide an important boost for the sector and the economy. It will also help reduce transport emissions by increasing the adoption of low emissions vehicles and thereby deliver better environmental outcomes.

More effective policing of illicit tobacco products and associated revenue could offset some of the revenue lost from abolishing the inefficient taxes suggested above. Currently, tobacco excise revenue of over $3 billion annually is left uncollected because of gaps between the National efforts to eliminate illicit tobacco from entering the country and the State compliance on sales of the same product.

Innovation and R&D

Innovation and technical improvement are fundamental to the Australian economy’s recovery and longer-term prospects. The driving forces of change towards a more dynamic and innovative economy are not only becoming more global and increasingly complex in character, they are evolving at a more rapid pace, in part due to the COVID-19 pandemic.

As we enter a new decade, Australia has the choice of grasping new opportunities or being left behind. We are not short of challenges that require new approaches to solve them, including better collaboration between industry, government and the research community, as well as the necessary financial incentives for research and development (R&D) and adequate returns to commercialisation.

Recommendation

- Re-calibrate the balance between direct and in-direct Government research and development (R&D) support with the aim of increasing total public and private sector R&D expenditure to 2.5% of GDP by 2025.

- Increase funding for industry-research collaboration through Cooperative Research Centre (CRC) grants or R&D collaboration premiums and re-orientate the research programs to focus on delivery of commercial outcomes.
- Build on CSIRO's national missions program to establish grand-scale national missions that address major societal, environmental and industry challenges and drive industry collaboration, innovation, productivity, job creation and new markets.
- Create a more resilient economy by increasing the economic complexity of industry sectors and diversifying export markets.

Rationale for Proposed Policy

The rapid pace of digitalisation, a greater focus on supply chain resilience and the role of manufacturing because of the COVID-19 pandemic, together with increasing environmental pressures are acting to transform the economy. These transformative factors are not unique to Australia or any one industry – they are global and cross-sectoral in nature. They are not only driving significant competitive pressure for established firms with mature business models, but they are also creating significant growth opportunities for younger, innovative firms.

As the race of a COVID-19 vaccine has shown, technological development can happen very quickly, with reduced bureaucracy, faster approvals and greater willingness to take risks, when the political and economic imperatives are there.

Despite greater demand for R&D and increasing pressure on Australian businesses to become more innovative to remain competitive, Australian investment in R&D has fallen substantially in recent years, such that it is now below 1.9% of GDP. This compares poorly to the OECD average of 2.4% of GDP and other major economies such as Japan (3.2%), Germany (3.0%) and the United States (2.8%).[4]

To increase Australia's overall R&D expenditure, the Commonwealth should work with state and territory governments, industry and the research community to develop a strategy to lift overall R&D expenditure to 2.5% of GDP by 2025.

The Government has a role in boosting direct investment in R&D, by increasing funding to CSIRO, ARCs, CRCs, RDCs and university research. This should include incentives for businesses to invest in research and work collaboratively with these and other institutions to ensure institutional research is better focused on the needs of industry. The focus should be on innovation and commercialisation that leads to outcomes and outputs. This will ensure the greatest return is gained from the research dollar.

Australia's national science agency, CSIRO, has established national missions based on collaborative networks across industry, government, the research sector and community to

[4] https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm

drive new-to-market solutions for some of Australia's most pressing problems.[5,6] Modern industry policy must recognise the cross-sectoral nature of the challenges faced by industries. To capture significant growth opportunities, industry policy must build on the economy's comparative strengths while supporting allied industries and incumbent firms to pivot and grow. Solving grand challenges through collaborative, cross-sectoral "Apollo" style missions will drive industry collaboration, innovation, productivity, job creation and new markets.

Australia's economy lacks complexity, exposing it to future shocks and a changing world economy. Australia's largest exports are in low complexity categories, such as minerals and agriculture. Although some traditional commodities will remain a key feature of Australia's export mix, we can do better to expand and diversify our supply chains by attracting global value chains to Australia. There needs to be greater incentive for business to develop new products and services to lift Australia's economic complexity and diversity, based on the economy's comparative strengths and the removal of bottle-necks and constraints.

Deregulation and regulatory reform

The benefits of less prescriptive and more agile regulation have been demonstrated by Government on numerous occasions in response to the COVID-19 pandemic. Fit-for-purpose regulation is the primary focus of the Government's deregulation agenda.

The Government's ambition to streamline the stock of regulation, while ensuring the flow is light touch and regulator behavior is improved, is a welcome step on the path to broader regulatory reform. A whole of government approach to the development, design and implementation of regulation involving all stakeholders affected is fundamental to improving outcomes for policy makers, regulators and businesses, and delivering regulation that is fit-for-purpose.

Recommendation

- Prioritise and adequately resource the adoption of a user-centric approach to the development, design and implementation of regulation across the whole of Government to ensure regulations are fit-for-purpose, meet community expectations and make it easier for business.
- Work with states and territories to simplify and streamline the major project approvals, setting targets for approval times and performance reporting and subjecting fewer proposals to Foreign Investment Review Board (FIRB) assessment.
- Shift the collection of all remaining border-related customs duties to the regular BAS reporting process to ease the administrative burden on business.

[5] https://www.csiro.au/en/About/Strategy-structure/Solving-the-greatest-challenges

[6] The six challenges relate to: food security and quality, health and wellbeing, resilient and valuable environments, sustainable energy and resources, future industries and a secure Australia and region.

- Impose greater accountability requirements on the cost recovery process for regulatory agencies and ensure incentives are in place to drive efficient regulation.

Rationale for Proposed Policy

The burden of regulation is a key factor constraining Australia's productivity, growth and international competitiveness.

ACCI welcomes the Government's stewardship approach to regulation and the new regulator performance role that has been established within the Department of Prime Minister and Cabinet. Maintaining and sufficiently resourcing the regulatory functions within Government are necessary to bring about a coordinated, whole of government approach to regulation. Ongoing effort is required to change regulator culture across Government to ensure regulatory systems are fit-for-purpose, thereby meeting community expectations regarding safeguards while making it easier for business.

Most importantly is the need for Government to adopt a user-centric approach to the development, design and implementation of regulation. Regulators need to work closely with all affected stakeholders including local, state and federal government policy agencies and regulators, industry bodies and employee representatives. Along with clear expectations through the Secretaries Board process, resourcing must be provided to departments and agencies to bring about this culture change in the way they operate. A user-centric approach is fundamental to improving the efficiency and effectiveness of regulation, better coordinating regulatory reform across departments and agencies, and better harmonising new and existing regulation.

Attracting global capital by making it easier to invest in Australian industries and Australian cities and regions will help drive job creation and economic growth. The unnecessary duplication of environmental regulation administered by the states and Commonwealth is a long-standing issue which needs to be addressed. Another important issue relates to planning and land use, which has led to serious concerns for national and multinational organisations that often spend thousands of dollars and hundreds of hours in preparing applications. Lengthy approval times and cumbersome paperwork can often lead to commercial disinterest and with it a loss in jobs and economic opportunity.

The Commonwealth should work with states and territories to simplify and streamline major project approvals system. By setting targets for reducing approval times and performance reporting and moving to 14-day approvals for low-risk developments up to $5 million and compliant with zoning. There are also opportunities to subject fewer proposals to assessment by the Foreign Investment Review Board (FIRB) by raising or removing the investment threshold. Decisions should be wound back from 6 months to 30 days. Providing guidance to companies about any prerequisite requirements on asset sales and exclusions for foreign investors will prevent wasted time and money.

Many regulatory agencies are reliant on full-cost recovery for their regulatory services, which provides little incentive to bring in efficient regulation. Costs for regulatory services are continually rising, along with the complexity and additional regulatory burden. The government's Cost Recovery Guidelines include three cost recovery principles: efficiency and effectiveness; transparency and accountability; and stakeholder engagement. Policy is clearly failing in these areas, particularly in terms of transparency and accountability. There needs to be greater accountability for cost recovery by regulatory agencies and greater incentive for them to deliver efficient regulation.

Energy

Stable long-term energy policy is needed to support a smooth structural adjustment in the economy that delivers strong, sustainable economic growth and favourable environmental outcomes. The newly created National Cabinet Reform Committee on Energy (Energy NCRC) offers the opportunity for the Commonwealth, state and territory governments to work together to achieve these outcomes. The focus of energy policies should be on targeting market-based solutions that stimulate private sector investment and promote and support a competitive market. Reducing the amount of Government intervention in energy markets and having more efficient and effective regulation will help achieve this.

Recommendation

- Work through the Energy NCRC to achieve a national agreement that integrates energy and carbon emissions policies to provide the long-term certainty necessary for private investment in major energy projects.
- Work more cooperatively with state and territory governments through the Energy NCRC to better coordinate the development of renewable energy generation infrastructure and regulation of emerging technologies.
- Legislate and implement the rule changes for embedded networks to give all electricity customers access to competitive retail networks.

Rationale for Proposed Policy

The Energy NCRC presents the opportunity to bring about a national agreement on energy and carbon emissions policy that has widespread support. The aim should be to achieve the necessary policy certainty to support long-term private investment in the energy sector, while maintaining downward pressure on energy prices and bringing about better functioning energy networks.

Although the Energy Security Board is reforming the National Electricity Market by updating the market rules and frameworks to allow for the changing mix of generation technologies, the Commonwealth and some states appear to be 'going it alone' by either directly investing in, or incentivising, the development of energy generation within their jurisdictional remit. Similarly, governments are working in isolation on emerging technologies such as hydrogen and electric vehicles, with policy and regulation very different and inconsistent across the states and territories. A more coordinated approach is required by governments working through the Energy NCRC and relying on the advice of the Energy Security Board, to optimise the new generation capacity developments, ensure the national electricity market is operating efficiently and effectively, and that policy on emerging technologies is consistent across the states and territories.

An example of inefficiency in the electricity sector is embedded networks. There has been a surge in embedded networks in recent years, as commercial and residential property developers see an opportunity to gain a new source of ongoing income. This issue has been raised by ACCI in previous submissions and we welcome the work of the Australian Energy Market Commission and Australian Energy Regulator to improve competitive outcomes for customers on embedded networks. Rule changes have been approved by Australian Energy Market Commission, but the tabling of the legislation has been delayed due to COVID. These rule changes must be legislated and implemented as soon as possible to give customers on embedded networks access to competitive retail networks and deliver considerable cost savings.

Infrastructure spending

There is a significant need for new infrastructure along with upgrades, maintenance and replacements to support Australia's population growth over recent years, particularly in the capital cities. The Government has rightly prioritised infrastructure investment as a key driver of the economic recovery as it is widely regarded as an efficient form of government stimulus due to having a large output multiplier relative to other fiscal policy measures. Greater investment in infrastructure will provide much-needed stimulus to the economy as it recovers from the COVID-19 pandemic as well as lifting future productivity growth and meeting the needs of Australian for connectivity and quality of life.

Recommendation

- Work with states, territories and local government to more efficiently and effectively deliver investment identified in Infrastructure Australia's *Infrastructure Priority List*.
- Provide incentives to state and territory governments and local councils to improve procurement practices, such as adopting new developments in auction design that enable packaging of bidding for contracts, to increase competition by enabling a larger number of smaller contractors to bid for projects.
- Finance public infrastructure through the issuing of government securitised infrastructure bonds.

Rationale for Proposed Policy

Despite the disruption to immigration due to the COVID-19 travel restriction, Australia's population growth is expected to soon return to its previous strong upward trend, rising from 25.5 million in 2020 to reach 30 million around 2030. With Australia's major cities already under strain, greater investment in infrastructure across a range of sectors including transport, communications, energy, water and waste is needed to reduce congestion, improve the livability of cities and increase productivity. In addition, existing infrastructure is aging and there is increasing demand for upgrades, maintenance and replacements.

Given infrastructure investment is not solely a Commonwealth responsibility, the Commonwealth must work with state and territory governments through the National Cabinet Infrastructure and Transport Reform Committee to deliver cost effective and efficient infrastructure investment.

With the accumulation of large amounts of public debt by the Commonwealth and state and territory governments due to the COVID-19 pandemic, it has become more important than ever that decision-making for public investment is independent, market-focused, evidence-based and well-targeted at priority projects. Independent bodies such as Infrastructure Australia, and its *Infrastructure Priority List*, should be relied on for the assessment, selection and sequencing of infrastructure investment.[7]

New techniques in auction design such as that currently being developed at the Centre for Market Design at Melbourne University enable business and the market to determine the optimum allocation of packages of work.[8] These techniques provide scope to break tendering processes into a number of smaller components, enabling contractors to make a number of bids for different components of a project. This will increase competition by widening the pool of contractors able to bid on projects and reduce delays in the commencement and completion of projects. The adoption of these new techniques offers the opportunity to reduce costs, to improve the efficiency of delivery of major infrastructure projects.

Public infrastructure can capture broad benefits, including economic, social and environmental, that make it attractive to investors seeking long term investments with particular characteristics. With impaired government balance sheets due to the COVID-19 response, there is a compelling argument for government to fund investment in public infrastructure through securitised borrowing in the form of infrastructure bonds rather than through general purpose borrowing.[9] Infrastructure bonds would facilitate private sector investment, providing opportunities for a range of investor types from individuals to large funds. Investors such as superannuation and pension funds, insurance companies and sovereign wealth funds would find these bonds an attractive vehicle to increase their investment in Australian infrastructure. There is considerable scope to leverage the sector's $2.7 trillion to invest in public infrastructure to support the government's policy priorities for economic growth and increased productivity.

Digitalisation, technology adoption and cyber security

COVID-19 has accelerated the uptake of information technology in our economy, with the rate in adoption of new technology that would normally occur over several years happening in several months. This is a trend is expected to continue. Digitalisation is central to

[7] Infrastructure Australia (2020) *Infrastructure Priority List,* August. https://www.infrastructureaustralia.gov.au/publications/infrastructure-priority-list-2020-august

[8] The University of Melbourne, Centre for Market Design. https://fbe.unimelb.edu.au/cmd/home#about-us

[9] Select Committee into the Security of Government Budget Measures: Second interim report, April 2016: https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Scrutiny_of_Government_Budget_Measures/Budget_Measures/Second_Interim_Report

enhancing Australia's productivity. By supporting and encouraging firms across all industries to invest in IT and digital capability, we can further drive productivity, jobs growth and international competitiveness.

Recommendation

- Encourage greater investment in technology and digital innovation by establishing a business ICT Modernisation Fund to help businesses move from legacy ICT systems to more modern capabilities.
- Foster growth of the domestic cyber security talent pool and seek opportunities to export cyber security products and services to the world.
- Create public-private sector partnerships to drive investment in next generation 5G technology in critical and high-growth industries.
- Establish a Smart Cities taskforce to develop cyber-physical solutions to improve the productivity, safety and mobility of goods and individuals across urban areas with a focus on the commercialisation of novel solutions to address safety and congestion.

Rationale for Proposed Policy

Digitalisation offers business of all sizes in all sectors of the Australian economy commercial opportunities to increased productivity, enabling them to grow and create jobs, as well as provide an improved work-life balance. In particular, the digitalisation of high growth industries, such as digital education and digital health have the capacity to create positive spillover benefits through the economy. It is becoming increasingly important for SMEs to look to the adoption and successful implementation of digital technologies within a trusted ecosystem, secured by design that is both robust and resilient.

International research points to a strong correlation between intangible capital investment and an increase in labour productivity growth, and economic growth. However, the Government's *Future Productivity* report showed that prior to COVID-19 many industries were lagging, and consequently failing to transform cost structures and build new business models, services and methods of production.[10] Furthermore, it was found that while productivity in digital industries grew by an average of 2.1%, productivity in physical industries only grew 1.3%. PWC modelling shows digitalisation is desperately needed at scale.[11]

A key recommendation from the Innovation Science Australia report on stimulating business investment in innovation is a need to create direct measures to encourage greater investment in technology and digital innovation.[12] Investment in software, digital transformation and ICT act as enablers of productivity across multiple sectors, particularly

[10]https://publications.industry.gov.au/publications/industryinsightsjune2018/documents/IndustryInsights_3_2018_ONLINE.pdf
[11] https://www.pwc.com.au/important-problems/australia-rebooted-resetting-economy-after-covid-19.html
[12] https://www.industry.gov.au/sites/default/files/2020-02/stimulating-business-investment-in-innovation.pdf

newer firms and SMEs. Setting up an ICT Modernisation Fund would help stimulate this investment and assist businesses move from legacy ICT systems to more modern capabilities.

Cyber security has never been more important, both as an enabler for Australian industry and as a source of economic growth itself. An increased uptake of digital technology needs to be complemented with further investment in protecting business and national security assets from the risk of cyber-attacks. Government and the business community needs to think of cyber security not just in terms of compliance and risk mitigation, but as an essential business function that is fully embedded in processes and systems. Australia has an opportunity to harness our intellectual abilities to develop cyber-security solutions to meet the growing need to protect domestic businesses, as well as exporting this technology to the world. However, to achieve this, greater investment is required to develop this capacity through education of and building resources in domestic firms.

Another key enabler of productivity growth is 5G. The potential for new and improved products, and better efficiency in production, means that 5G will have an economic effect well beyond any short-term commercial return. 5G is the first generation of mobile technology that properly supports the Internet of Things (IoT). Its capability means the potential number of connected devices will rise exponentially.

Industries will have different needs according to their suite of technologies. Major telecommunication providers have invested in mid-tier bands thereby limiting the current scale of technology usage and uptake. In order to identify and drive broad uptake Government must work in close partnership with industry and telecommunication providers to establish opportunities for technology adoption and the design and use of new products domestically though public-private sector investor partnerships and expressions of interest from international investors.

A Smart Cities Taskforce should be created to establish greater confidence in our urban areas with the aim of adopting cyber-physical solutions to improve the productivity, safety and mobility of goods and individuals. This will restore confidence to our urban centres, particularly, Sydney and Melbourne, to kickstart the economic recovery and allow small business to get back to business. The CBDs of our two biggest capital cities alone contribute to 20% of the national economy. Current vacancy rates demonstrate that Australia's CBDs are operating well below capacity. While this has become a welcome boost to outer ring suburbs, ensuring our urban centres continue to thrive, attract talent and capital will be necessary to support the economy's growth over the short and long terms.

Circular economy

The passing of Australia's first ever national waste legislation, the *Recycling and Waste Reduction Act 2020* has progressed our move to a circular economy.

Materials efficiency is at the heart of a circular economy. More efficient use of material resources and better environmental outcomes are achieved by policies that increase competition in existing markets, create competitive new markets, and provide incentives for business to innovate and invest in new technologies. It is important that there is a robust understanding of how Government and industry can work together to achieve this.

Recommendation

- Task the Productivity Commission to undertake a comprehensive review of how Australia could transition to a circular economy. The review should assess the economic benefits available to Australia from moving to a circular economy and the economic, technical and institutional barriers that may need to be overcome.

Rationale for Proposed Policy

The 2018 National Waste Policy states that a 5% economy wide improvement in efficiency in the use of materials could deliver an extra $24 billion to the Australian economy. Although very hypothetical, this estimate suggests substantial economic gains may be available from Australia improving its materials efficiency.

The circular economy extends beyond waste management and recycling of waste materials. It also involves more efficient use of material in new products, longer life-cycle of products and re-use of materials rather than sending them to waste.

The move to a circular economy also requires greater consideration of the End-of-Life of products and the proper disposal of component material. Taking the motor vehicle sector as an example, nationally there is currently around 260,000 tonnes of plastics from end-of-life vehicles (ELVs) committed to landfill annually, which represent a significant environmental impact. Australia is the only developed country without a policy dealing with ELVs, which has the potential to undermine a successful move to a circular economy. There are also emerging issues with the recycling of solar panels and lithium batteries, as these products contain highly toxic material and the recycling technology is yet to be developed.

There is currently no national assessment of the economic benefits arising from Australia moving to a circular economy or the necessary changes in Government policies and institutional arrangements needed to overcome the economic, technical and institutional barriers to achieving it. To ensure the Australian economy captures to the greatest extent possible the opportunities from transitioning to a circular economy, the transition needs to be informed by credible research that provides such an assessment.

A Productivity Commission review into the economic benefits and challenges for Australia in moving to a circular economy would provide an important contribution to understanding the possible pathways and the barriers that need to be overcome. It would also identify the opportunities for microeconomic reform that may arise from transitioning to a circular economy.

Skills and Training

The COVID-19 pandemic sees Australia facing significant challenges, with increased unemployment and underemployment. It is critical to ensure both young people and those displaced by the crisis are able to receive quality training that leads to a job, particularly new school leavers who will be most heavily impacted by the economic downturn. At the same time, there is evidence that skills shortages persist, even in industries where the crisis has had a profound impact. This difficulty in accessing skills is exacerbated by the disruption to skilled migration as a result of the pandemic.

Ongoing support is needed to address the rise in youth unemployment and the ongoing need for skills. Job seekers need access to accredited training courses, both qualifications and skill sets, that quickly upskill and prepare them for work. JobTrainer has been instrumental in fulfilling this need but continued investment in education and skills is critically important to Australia's economic recovery.

Recommendation

- Commit to long term, consistent funding for VET which delivers real funding increases that ensures the economy's skill needs are confidently met.
- Extend the apprenticeship wage subsidy beyond March until 31 December 2021 at 50% for those businesses would have otherwise been eligible for JobKeeper had it continued, and at a tapered rate for other businesses.
- Extend the Boosting Apprenticeship Commencement incentive until 31 December 2021.
- Establish a National Apprenticeship Advisory Board.
- All Training Package Diploma and Advanced Diplomas should be eligible for VET Student Loans.

Rationale for Proposed Policy

The Heads of Agreement in 2020, ahead of the new National Agreement on Skills and Workforce Development (NASWD) to be signed in August 2021, commits all jurisdictions to a real funding increase in VET. This commitment, if fulfilled, will greatly assist in avoiding cost shifting, fluctuations in overall funding investment and further limitations on training providers who service critical skills shortages areas. This Budget and the impending NASWD offers the Federal Government the opportunity to put in place a long-term funding solution for VET that delivers real growth in funding as well as greater consistency and certainty.

The Supporting Apprentices and Trainees Wages initiative, providing 50% apprenticeship wage subsidy through to the end of March 2021, has enabled many employers to retain their apprentices. However, we are concerned, in industries where recovery has been slow or non-existent and in the context of a challenging economic environment, that retention of these apprentices will be difficult beyond March 2021 without ongoing support. The Supporting Apprentices and Trainees Wages apprenticeship subsidy scheme should be continued at a tapered rate for businesses of all sizes at least until 31 December 2021. It should also be extended at the current rate to all industries that would otherwise have been eligible for JobKeeper in order to maintain the skills development effort for those industries that are currently struggling but will need a skilled workforce when the crisis is over. With the existing scheme, the Commonwealth has demonstrated that it can deliver this benefit to employers directly through its own Apprenticeship Support Network. This direct delivery should continue as it is more immediate and more effective than any alternative partnership agreement approach where outcomes rely on the State and Territory Governments.

Recent experience with the increase in apprenticeships incentives has demonstrated that incentives deliver a positive outcome as they often tip the balance in the business case for employers to take on a trainee or apprentice, recognising the significant investment employers make in training apprentices and the wages paid. Incentives are required not only to deal with the existing crisis, but we must ensure there is a long-term plan beyond the existing crisis response that clearly establishes the ongoing role for apprenticeship incentives. The Boosting Apprenticeship Commencements (BAC) initiative, set to expire on 30 September 2021, and most likely finishing earlier when the 100,000 cap is reached, should be extended to 31 December 2021 in line with the retention recommendations. Post-December 2021, it is important that base apprenticeship incentives, currently set at $1500 on commencement and $2500 on completion, should be increased across all occupations. An assessment of skills in shortage should not impact on the delivery of base incentives.

ACCI continues to advocate for a national apprenticeship leadership or advisory body, which would provide valuable guidance for both the short- and longer-term structures of apprenticeships. The body would inform the implementation of projects submitted under the Skilling Australia Fund (SAF) National Partnership Agreements, as well as provide input and oversight on national reform projects and improvements to the apprenticeship system including promotional efforts. It would also be well positioned to examine any issues in the apprenticeship system that are creating barriers for take-up by either the employer or the job seeker.

There is significant discrepancy in the funding models for VET and higher education, with VET Student Loans (VSL) being very limited in the higher-level qualifications they cover. All Diplomas and Advanced Diplomas that are part of Industry Training Packages should be eligible for VSL, the loan premium should be removed permanently, and the caps reviewed. Industry bodies should also be able to apply for consideration for the program to be extended to some Certificate IV programs, on a case-by-case basis.

Employment

One of the most challenging outcomes arising from the current crisis is the impact it has had on the job market and the significant rise in unemployment.

In particular, the level of youth unemployment remains unacceptably high, and the current crisis has exacerbated this situation. In a highly competitive marketplace, it is hard for young inexperienced workers to compete for the limited number of jobs as they are often perceived as taking longer to become productive contributors to the enterprise. School leavers and graduates from 2019 have faced a particularly tough situation, and those leaving school in 2020 will also face challenges.

Recommendation

- JobSeeker revert to the indexed pre-COVID JobSeeker (Newstart) rate from 1 April 2021 for those who have been unemployed for less than 12 months.
- The $150 per fortnight supplement is retained for a further 12 months or until unemployment drops below a specified benchmark for those who were unemployed prior to the end of March 2020.
- That all unemployed persons who need to pay for an internet connection and services receive a supplement to specifically cover these costs, or if this is administratively difficult that the base rate is increased to cover these expenses.
- Consider a holistic approach to youth unemployment that combines the redesigned PaTH, Transition to Work, apprenticeships, proven youth programs, and fully subsidised VET training in qualifications that lead to jobs in demand.
- Financially reward PaTH training providers for work experience, internship placements and job outcomes of young job seekers participating in their programs.

Rationale for proposed policy

With the JobSeeker supplement scheduled to end in March 2021, there remains robust discussion among stakeholders on what the base allowance rate should be post-March. It is critical to get the balance right between the needs of the unemployed, the fiscal impact on the economy and the appropriate rate that incentivises those who are able, to get a job.

Before the crisis, ACCI's policy focus had consistently been on job outcomes rather than increasing what should be a temporary allowance while people find a job. However, with unemployment sitting just under 7%, circumstances particularly for the long term unemployed (those that had been unemployed for some time prior to the crisis) have changed. The current jobs crisis has significantly increased the difficulty in this cohort finding a job, meaning the JobSeeker allowance, and importantly other financial support, will be needed, at least for the short to medium term, to support long-term job seekers.

The digital platforms are the primary mechanism for servicing the unemployed and aid their job seeking. Given this, consideration should be given to the provision of a supplement to cover internet broadband access, paid to recipients of JobSeeker as either a supplement or an increase in the base allowance.

In relation to younger job seekers, we welcome the Hiring Credit and industry approaches to PaTH to introduce more industry driven programs. These and other relevant initiatives could be pulled together into a strategic and holistic approach to youth unemployment that combines a range of proactive solutions built on programs that have been proven to work. This holistic 'youth approach' could combine the new PaTH Business Placements Partnership

Program, Transition to Work, apprenticeships, proven youth programs, and fully subsidised VET training in qualifications delivery through JobTrainer that lead to jobs in demand. The employment services digital platform provides the mechanism to connect young people directly to these opportunities and their participation in them needs to be appropriately incentivised. The benefit of this approach is that it does not concede that these young people need to live off unemployment benefits for a long period – and instead provides a proactive package that keeps them actively engaged in education or work experience until they can secure a job.

Higher Education

ACCI welcomed the October Budget announcements for an additional 12,000 Commonwealth supported places, and the significant investment in nationally significant research infrastructure and partnerships between universities and industry.

Recommendation

- Ensure higher education students are aware of the potential employment and salary outcomes of their study choices by appropriately funding the promotion of the QILT/ComparEd website.

Rationale for proposed policy

ACCI supports the principles of the Job Ready Graduates legislation, which was passed by Parliament in 2020, and will monitor closely its implementation. However, we are concerned the reduction in funding for some industry sectors, such as engineering, may lead to less positions being made available or poorer quality delivery. Funding adjustments may be needed in 2021/22 and beyond if the system's ability to service the needs of the labour market are detrimentally impacted due to the substantial changes to funding in some disciplines.

There are other ways for outcomes to be maximised, including ensuring that potential students are well informed about their choice of course and career. It is essential that students are provided with some indication of the likelihood of employment in a subject area prior to enrolling in a course of study.

The National Career Institute needs to consider all educational sectors in its career promotional activities, and funding is needed to market the ComparEd website (previously named QILT) so that employment prospects and salary outcomes are better understood.

Migration and Population

The current crisis has effectively halted Australia's migration program. This has significant economic and fiscal consequences. We should be planning now to restore the migration program to an even stronger position post-crisis.

The planned migration intake for 2021/22 should be reset to 190,000 with a significant focus on employer sponsored migrants.

Recommendation

- Restore Permanent annual migration levels to 190,000.
- Halve the SAF Levy for temporary and permanent employer nominated visas.
- Improve the refund policy for the SAF levy so that a refund is available in all cases where the application has not been successful.

Rationale for proposed policy

Treasury's statement on migration in 2018, 'Shaping a Nation', rightly highlights the economic and fiscal benefits of a strong permanent migration program. The decision taken to reduce the migration intake by 30,000 to 160,000 sent a negative signal about the benefits of migration. Given the impact on population stalling arising from the pandemic, the negative impact of this decision is exacerbated.

The caps for future years should be set according to the evidence of maximum benefit, including an assessment of economic, fiscal and demographic outcomes. The cap of 190,000, was an appropriate level to maximise benefits and still control migration levels. The permanent migration levels should be restored to 190,000 for the 2021/22 year in order to maximise both economic and fiscal benefits as well as to make up for the population impact of net zero migration arising from the COVID crisis.

In the meantime, and at least for the next 18 months, for the purposes of employer sponsored permanent migration, the government is encouraged to remove the distinction between skilled occupations on the short and medium/long term skill shortages lists to enable any skilled migrants sponsored by employers to have a pathway to permanency. This will be particularly valuable in allowing those skilled temporary migrants in country to add to the permanent skilled base of the economy. The effect of this is to restore what was in place with the 457 visa prior to the 2017 changes.

The mechanism and quantum of the Skilling Australia Fund (SAF) levy applying to skilled migration was an unwelcome surprise in the 2017 Budget. The amounts of $1200 per year for small business and $1800 per year for large business were well in excess of the 2014 457 Visa Integrity Review's recommendation of $400 per visa holder per annum for the temporary skills shortage visa. In addition, the SAF Levy is paid upfront for the whole term of the visa, which was also not consistent with the annual invoicing recommendation of the Integrity Review. The 2017 Budget also included a levy for employers using the permanent Employer Nomination Scheme, $3000 for small business and $5000 for large business, paid up front.

Further, it is inequitable that a sponsoring employer cannot obtain a refund of the training levy if their application is unsuccessful, other than on health or character grounds. A refund of the training levy should be available in all cases where the application has not been successful.

Overall, ACCI is of the view that the SAF levy should be halved for both temporary and permanent skilled employer nominated visas and that the refund criteria should be expanded to include any unsuccessful applications.

Workplace Relations

How Australia regulates work matters. Like all nations, we have to get the balance right between (a) minimum standards and protections, and (b) practicality, comprehensibility, enforceability and a foundation for adaptation, productivity and innovation.

After 10 years in operation it is patently apparent that the Fair Work Act, the comprehensive re-write of the rules and re-regulation of workplace relations under the then newly elected Rudd Government, is failing in key areas, and is operating unfairly and ineffectively for an increasing proportion of employers, employees, job seekers and the wider community.

For much of the 20th Century Australia's idiosyncratic approach to regulating work was a positive, supporting our economic growth, social cohesion, and rising living standards. This is no longer the case. The Fair Work Act is failing to provide a foundation for the competitiveness, productivity and confidence Australia needs for an effective recovery.

Tackling wider problems in our workplace relations system must be part of any economic and jobs plan for recovery and our foundation for future prosperity. Failing to address dysfunction in the Fair Work Act risks holding Australia back.

Recommendation

- Pass the Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2020, subject to amendments recommended by ACCI and its members.
- Beyond the balanced, but moderate package of immediate priority changes already before Parliament in 2021, priorities for further reform should include:
    - Evaluating the performance of Australia's industrial relations system against those in comparable OECD countries, identifying strengths and weaknesses, and opportunities for reform. This should include critically examining whether the level of prescription and regulation in Australia is delivering better outcomes for employment, equity and the protection of fundamental rights and interests.
    - Genuinely simplifying, and further reforming enterprise bargaining to ensure agreement making is simplified, employers and employees have more agreement making options that are more appropriate to their circumstances and priorities, and protections and safety nets are better focused on employees who most need them, and do not over complicate or needlessly discourage bargaining.
    - Delivering greater clarity and flexibility in industrial awards to better clarify the role, content and prescription of modern awards.

  - Restoring balance to unfair dismissal laws, by ensuring employers are supported in terminating the employment of employees found to have breached safety and/or community standards of conduct.

- Ensure institutions and services responsible for supporting and implementing these changes (the Fair Work Commission and Fair Work Ombudsman) are adequately resourced for their expanded roles.

Rationale for Proposed Policy

Australian employers and employees are too often muddling through in spite of our workplace relations system, not with its support as a foundation for jobs and shared prosperity. We cannot afford this to continue as we seek to recover and advance in a post-COVID world.

Enterprise bargaining, which is supposed to be at the core of our workplace relations system, is in sustained decline, with fewer employees covered by enterprise agreements than there were in 2010 (falling from 43.5% in 2010 to 37.9% in 2018[13]), and fewer current enterprise agreements (falling from 25,150 in December 2010 to 10,711 in June 2020).

There is significant uncertainty with respect to the employment status of casual employees, and unwarranted retrospective double payments for entitlements such as leave which have already been compensated through loadings, impacting employers' willingness to hire and create jobs.

The Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2020 will deliver critically important improvements, which will make a difference for both employers and employees. However, it is not the wholesale systemic reform necessary to deliver the foundation for future productivity and job security Australia needs.

Employment law is a key part of the productivity equation and Australia's productivity performance remains parlous. Significant and wide-ranging improvement to workplace relations law and practice must be part of the foundation for the productivity and competitiveness upon which significant economic and jobs recovery will rely in 2021 and beyond.

As countries jockey for their place in the world post-COVID and seek to take advantage of the opportunities disruption brings, Australia needs to be positioned to seize our advantages and improve our standing as a place to do business and create jobs. We need to take active measures to improve confidence and hiring, particularly for young people at risk of labour market scaring through delayed labour market entry and consolidation. We cannot afford to treat workplace relations as off limits, or too hard to tackle.

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[13] Attorney General, the Hon Christian Porter MP, Fair Work Amendment (Supporting Australia's Jobs and Economic Recovery) Bill 2020, Second Reading, 9 December 2020. https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22chamber%2Fhansardr%2F8d35ad3a-06a6-4b15-b4bc-d5f91eeb30c9%2F0025%22

Finally, our workplace relations system has been rendered near incomprehensible for employers and employees in the 2000s, and for all this complexity and over-regulation is not delivering any fairer outcomes than other comparable OECD countries. After both the overreach of Work Choices and the over correction of the Fair Work Act, outcomes in Australia are no fairer or better than in competing developed countries.

Australia has to be capable of finding a better way than the overly polarised approaches of the past two decades. Australia needs to find a genuine third way which delivers a clear, enforceable, productive, competitive, job generating and job retaining workplace relations foundation for increased living standards that supports Australia cementing and improving its place as a G20 economy.

Work Health and Safety

The impact of the global COVID-19 pandemic on the Australian community, economy, businesses and jobs has been unprecedented.

COVID-19 has seen the emergence of new and complex work health and safety risks and Australian workplaces have had to face new challenges which have affected all aspects of their operations and the way in which they work. The risks arising from COVID-19 and the ever-changing manner in which we respond will likely impact Australian workplaces for years to come.

COVID-19 has highlighted not only the importance of work health and safety but also the need to ensure businesses are receiving the right information and practical assistance in order to continue operating whilst protecting their workers and the community more broadly.

Recommendation

- Reinstate funding for industry engagement on work health and safety to ensure the ongoing safe and productive operation of Australian workplaces as we transition to COVID Normal.

Rationale for proposed policy

Safe Work Australia (SWA) leads the development of policy to improve work health and safety (WHS) and workers' compensation arrangements across Australia. Throughout the COVID-19 pandemic, SWA played an integral and coordinating role in the development and dissemination of national work health and safety guidance material. SWA Members were integral to the development of this guidance, and the tripartite representation from the Commonwealth, state and territory governments, employer groups and unions ensured that we could identify and respond to emerging issues across all industry sectors and locations in close to real-time.

To ensure the increased demand for WHS guidance and the ability for employer and worker representatives to continue delivering comprehensive and timely WHS advice and information to employers and workers that has been driven by the COVID-19 pandemic and will be compounded by other emerging issues (bushfire smoke, silica, working from home) and the ongoing review of the model WHS laws, ACCI urges the Government to reinstate funding to SWA social partner Members.

Trade

International trade has been heavily disrupted by the continuing COVID-19 experience and combined with ongoing tensions with our largest trading partner, China, has resulted in damage to many global supply chains. Restoring conditions supporting free trade and investment is necessary for repairing the damage COVID-19 has inflicted on the Australian economy. This is not the time for Australia to pull back from a pro-trade agenda.

Similarly, we also hope that the tensions with China, and the resulting disruption to trade in some key exports, will also ease in the near term and return to normalcy. However, the experience with both China and COVID-19 has demonstrated the need to deepen and broaden the scope and scale of our international trade and investment relations.

Recommendation

- Remove remaining import tariffs and shift all other border related revenue collection to the regular BAS reporting process.
- Implement a Trade Community System to reduce the costs of doing business in Australia for businesses to remain internationally competitive.
- Export Market Development Grants (EMDG) funding to again be elevated to $200 million annually for the next budget and for the forward estimates.
- Work with industry more collaboratively to assist and support more Australian companies to become internationally engaged, especially SMEs.
- Increase efforts to assist businesses to understand the details of trade agreements in order to realise their potential.
- Implement a new support package for exporters and reliance industries to secure new and greater market penetration in foreign markets.

Rationale for Proposed Policy

One in five jobs in Australia is reliant on international trade[14]. The benefits of free trade to Australian businesses are about more than just increased exports. While boosting exports increases income, importing attractively priced goods, services and IP benefits Australian businesses by lowering costs. This can boost profitability or increase production by improving competitiveness and opportunities to participate in the production of different goods and services through 'global supply chains'. Free flow of investment both in and out

[14] https://www.dfat.gov.au/news/media/Pages/report-finds-trade-supports-one-in-five-jobs

of Australia also provides access to new capital for domestic businesses, income generating opportunities overseas, and cutting-edge business practices.

It is worth remembering that every export relies on imports. Australia offers elimination of import tariffs in our preferential trade deals. Once the agreements with the EU and UK are completed there will virtually be no tariffs applied to imports. This is acknowledged in the 2019 Budget with forward estimates showing that revenue collection after drawbacks will be little more than $500 million. However, both industry and government remain saddled with administrative compliance costs for preferentially applied tariffs. The government also applied certain exceptions to Personal Protective Equipment (PPE) imports to assist with the recent crisis. These exemptions should be permanently enshrined, and all tariffs removed to reduce the red tape and tax burden on industry.

Internationally engaged firms are known to pay higher wages and have higher labour productivity.[15] The Export Market Development Grants return $7 for every $1 invested. The government lifted the support for EMDG to $200 million in recent stimulus packages, but it has now returned to previous levels. We call on the government to lock in this higher level of funding across the forward estimates to support continue expansion of our export sector and to assist more exporters to re-establish former relationships and venture into new markets.

The Government has built up an array of preferential trade agreements. The latest, the Regional Comprehensive Economic Partnership Agreement (RCEP) is expected to enter until force sometime in 2021. Negotiations are also ongoing for agreements with the EU and UK. Once completed almost 90% of Australia's trade will be covered by such agreements. These agreements offer beneficial market access terms to companies that comply with the terms of each agreement, but our survey of exporters have demonstrated time and again that companies are not taking full advantage of the benefits on offer. ACCI and our membership stand ready to assist the Government to better inform and prepare companies for international engagement and the market diversification that will be necessary for us to drive economic activity in the post COVID-19 recovery.

We urge the Government to invest significantly more in programs that assist companies to become internationally engaged and skilled to do so. With the disruptions of 2020 and the continued international travel restrictions our exporters of goods have been unable to visit clients and seek to build new relationships. Similarly, our services sectors in education and tourism have seen client numbers tumble to near zero. Professional services and the goods sectors have benefitted from the widespread adoption and acceptance of online service provision.

Australia has unique and comparative advantage opportunities to advance our commercial interests in our region from Africa through the Middle East, South Asia, South East Asia and to Latin America and we need to look beyond the traditional markets of the Northern Hemisphere. We need the Government to develop a new suite of support measures –

[15] Razib Tuhin and Jan A. Swanepoel (2016) *Export behaviour and business performance: Evidence from Australian microdata.* Research Paper 7/2016

perhaps called "TradeMaker" to support the advancement of our international trade and investment sectors to reestablish the engagement with traditional clients and markets, as well as explore new markets and ways of doing business in the 21st century.

A lack of Australian competitiveness in global markets is a problem that continues to constrain our economy. It is a result of built up costs across the supply chain, including getting to, and through, our border. ACCI , along with the Port of Brisbane, has developed a Trade Community System[16] to address the commercial sector issues of data management, significant re-keying of the same information and the inefficiencies of the current logistics systems landside of the border regulator.

The project demonstrated the benefits of a modernised big data information system that would dramatically change the cost structure for business involved in international trade. It identified at least a $1 billion improvement annually in competitiveness if these systems could be implemented. Companies with highly digitised supply chains and operations can expect efficiency gains of 4.1% annually, while boosting revenue by 2.9% a year. For example, there were identified savings of half a million dollars per annum for one supply chain of one significant Australian business. This benefit can be repeated across the many thousands of internationally engaged businesses across our economy.

There is an opportunity for the government to also become a partner in these efforts and assist to place Australia back as a leading digital trade innovator in ways that will significantly change the cost structures for the Australian economy.

The concept envisages that we could see massively improved biosecurity and regulatory monitoring from the ability to know details of the cargo through its lifecycle in ways that are not currently available. The advent of COVID-19 has brought these issues into sharp relief and as we move towards a "restart" both domestically and with international trading partners, we will need significantly improved systems that put us at the forefront of global monitoring and data processing related to trade in goods as well as people movement.

A Trade Community System would cost in the order of $100-150 million to deploy. This could be done within 12-18 months. This is well inside any estimates related to the concepts of "Single Window" that have previously been considered by the government.

ACCI is keen to support the government in its efforts to overcome the current crisis, but more so, we are keen to ensure that Australia can emerge with a reinvigorated economy that can propel us back to an even higher level of productivity and economic success. We need to establish the foundation stones for the next generation of continuous growth and our current ranking of 106th in the World Bank's ease of crossing borders needs to be dramatically reversed.

A system, such as we have already proved, which will massively advance our economy is urgently needed.

[16] https://www.tradecommunitysystem.com.au/