

Inquiry into National Reconstruction Fund Corporation Bill 2022

ACCI Submission

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Introduction

The Australian Chamber of Commerce and Industry (ACCI) welcomes the opportunity to contribute to the inquiry into the National Reconstruction Fund Corporation Bill 2022.

Australia has become increasingly reliant upon imported goods to meet domestic demand. The manufacturing sector's contribution to gross domestic product (GDP) has steadily declined over the past 30 years, from approximately 14 per cent in 1990 to below 6 per cent in 2021. Much of what Australia produces and exports is raw commodities — energy and mineral resources, and agricultural products — with most of the value-adding occurring overseas. The COVID-19 pandemic highlighted the Australian economy's vulnerability to disruptions to international supply, with many of the supply chain constraints on essential goods still prevalent.

New investment to expand Australia's manufacturing base is crucial to driving future productivity growth, as well as creating jobs and maintaining our future living standards. Investment typically brings new technologies, which boosts productivity through skills development and innovation.

ACCI supports the objective of the \$15 billion National Reconstruction Fund (NRF) to diversify and grow Australian industry through co-investment in projects in sectors where Australia has competitive strengths. However, to ensure the NRF operates efficiently and effectively, ACCI urges amendments to this Bill.

Priority Areas

The object of the Bill is unclear and there is a high degree of circularity in the definition of ‘priority area of the Australian economy’. Clause 3 states “(t)he object of the Bill ... is to establish the National Reconstruction Fund Corporation to facilitate increased flows of finance into priority areas of the Australian economy”. Clause 5, definitions, states that “priority areas of the Australian economy” are outlined in clause 6, which itself states that “(t)he Ministers may, by legislative instrument, declare that each area of the Australian economy specified in the declaration is a priority area of the Australian economy for the purposes of this Act.”

There is no clear definition of what a ‘priority area of the Australian economy’ is. The Bill leaves it open to the minister to declare that each or any area of the Australian economy can be identified as a *priority area*.

The Bill should make clear in the definitions which industries and sectors are “priority areas of the Australian economy for the purposes of this Act”.

The NRF Corporation

We welcome the Government’s approach in establishing the NRF Corporation as an independent statutory authority, with a similar structure to the Clean Energy Finance Corporation and the Northern Australia Infrastructure Facility. To ensure its integrity, the NRF Corporation and its board must be independent, operating at arms-length of government.

We accept that it is appropriate for the minister to approve the NRF board members nominated through a process run by the department. However, the minister should not have the authority to directly appoint board members that have not gone through a formal recruitment process.

The criteria set out in the legislation for appointment of NRF board members is appropriate, requiring ‘substantial experience or expertise; and professional credibility and significant standing;’ in areas related to investment in major projects. However, we question the relevance of ‘industrial relations’ as a necessary area of expertise in assessing investment in major projects. The criteria for appointment to the NRF board should be solely skills-based and it is important to avoid any appearance that it can be used to reward people with non-relevant skills.

Clause 55 establishes the requirement for ministerial authorisation of payment to the NRF’s Special Account. It is appropriate for the minister to approve payment to the Special Account from which the NRF draws funding for investment in projects. However, to maintain the integrity of the NRF, it is essential that the minister remains uninvolved in the day-to-day operations of the NRF and its decisions on investment in individual projects.

Project Assessments

With a total of \$15 billion in Commonwealth funds available through the NRF Corporation, it is vital that funded project deliver value for money and the greatest return to the Australian economy. For this to occur, it is important that the assessment process is free from interference, market-focused, evidence-based and well-targeted at projects in priority areas that provide greatest productivity and social benefits to Australia.

Beyond the government’s investment mandate, the Bill does not⁴ outline the assessment process the NRF must use in deciding investments. To ensure the process is transparent, the NRF Corporation should be required to clearly set out the details of the assessment process for all potential projects. The

assessment criteria (including weightings) should be upfront and transparent, with the documentation of this assessment publicly available on the NRF website. Decisions can then be explained based on these assessment criteria.

Scope of Eligible Projects

The seven priority areas chosen for funding through the NRF are all worthy of investment and have potential for growth in Australia. However, ACCI questions why sectors and industries able to receive funding through the NRF was limited to just these seven. The space, telecommunications, allied medicines, chemistry, recycling and waste management, transport and industrial engineering sectors all have the potential to provide substantial productivity improvements through investment and are just as eligible for funding.

There is little evidence businesses operating in the seven priority areas chosen by the government have a competitive advantage in Australian or international markets, or that investing in projects in these areas will deliver the value for money and the greatest productivity return for Australia.

Limiting the scope of investment to seven core priority areas puts an unnecessary restriction on the type of project that can be funded through this initiative. Investment should be available to projects from all industry sectors that meet the selection criteria and will make a positive productivity improvement.

Industry sectors not included in the priority areas should be provided with the same support through the NRF, particularly existing sectors that have proven to be resilient to the changing economic environment over recent decades and capable of remaining internationally competitive.

Investment functions

Clause 71 details the government's investment mandate, with the investment functions of the NRF to provide financial accommodation (loans and guarantees) and acquire equity interests in entities relating to the priority investment areas.

For private corporations, entities and individuals, this does not include grants. Yet, financial accommodation by way of a grant is available for states and territories. ACCI questions the use of the NRF to fund investment activities of the states and territories. There are a range of other financial instruments available to fund investments by the states and territories. The funds available through the NRF should not be available to the government to offset and/or redistribute other funding sources, such as infrastructure or regional development funds, that would normally be used to fund state and territory investments. It is not appropriate to use NRF funds to provide grants to the states and territories when it does not provide grants to private corporations and entities.

ACCI supports limiting investment by the Corporation to bodies that are *solely or mainly Australian-based*. However, the legislation does not define a threshold for *mainly Australian-based*. A threshold for *mainly Australian-based* should be established, set at 75 per cent of revenue derived from Australian-based production at the time of investment.

Similarly, this requirement should be extended to equity in the entity seeking funding, such that funding should be limited to organisations/corporations that are *solely or mainly Australian-owned*, with an Australian equity ownership share of 75 per cent or greater. Any equity ownership taken by the NRF in a project should not dilute this Australian ownership equity share.

Re-investment of Surplus

Under Clause 58, the Bill currently grants the minister power to direct the NRF Corporation to return surplus money exceeding \$20 million to the Commonwealth. This undermines Clause 51 which establishes that the Special Account “will support the Corporation’s long-term financial sustainability and independence.”

Funding for the program should be used by the program to drive new investment in Australian industry. Surplus funds should be re-invested in new projects. For a \$15 billion fund, a surplus of funds of only \$20 million is a very small amount. The minister should not have the discretion to recoup funds from the NRF at a whim. Any withdrawal of funding from should follow a formal review of the NRF.

ACCI recommends that Clause 58 be removed and all surplus money be retained by the NRF for re-investment in worthy projects. Any returns on investment through interest, repayment of loans or sale of equity in projects by the NRF should be used to support ongoing investment, re-investing returns from projects back into the industry and continuing to make necessary productivity enhancements.

Recommendations

Recommendation 1:

The NRF Corporation be established a fully independent statutory corporation that is free from direct or indirect government influence.

Recommendation 2:

The Bill explicitly require the NRF Corporation to undertake rigorous cost-benefit analysis when assessing investment decisions to ensure all approved projects deliver value for money.

Recommendation 3:

All investment decisions should be released publicly, with detail posted on the NRF website.

Recommendation 4:

Projects from all industry sectors should have access to the NRF, rather than being limited to projects from the government's seven priority areas.

Recommendation 5:

The NRF should not be used to provide grants to the states and territories, offsetting or redistributing funding from other sources that would normally fund state or territory investments.

Recommendation 6:

A threshold for *mainly Australian-based* be established, with this threshold set at 75 per cent of revenue derived from Australian based production.

Recommendation 7:

A threshold for *mainly Australian-owned* be established, with this threshold set at 75 per cent of Australian equity ownership.

Recommendation 8:

Clause 58 be removed, with all surplus money re-invested in new worthy projects, rather than repaid to the Commonwealth at the minister's discretion.

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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