

9 November 2020

Manager
Modern Manufacturing Strategy road maps
Department of Industry, Science, Energy & Resources
GPO Box 9839
Canberra ACT 2601

By Email: manufacturing@industry.gov.au

Modern Manufacturing Strategy road maps

Dear Sir/Madam,

As the voice of private capital in Australia, the Australian Investment Council is pleased to present its submission to the Department of Industry, Science, Energy & Resources for its consultation on *Modern Manufacturing Strategy road maps*.

Private capital investment has played a central role in the growth and expansion of thousands of Australian businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include private equity (**PE**), venture capital (**VC**) and private credit (**PC**) funds, alongside institutional investors such as superannuation and sovereign wealth funds, as well as leading financial, legal and operational advisers. These members include both Australian domestic and offshore-based firms.

More and more businesses are choosing to raise capital from private investors, rather than through public markets because of the benefits of partnering with VC, PE and PC firms. Private capital investors can help unlock the growth and expansion opportunities of businesses through active asset management in a way that public markets simply cannot. This is evidenced by the fact that private capital-backed Australian businesses generate 1 in 9 new Australian jobs and contribute 2.6% of Australia's GDP.¹

At this time, it is vitally important that policy initiatives support the growth of Australia's future industries that are critical for employment and economic growth. As Australia transitions out of the COVID-19 downturn we must ensure that the economic recovery is underwritten by big gains in innovation and technology to drive increased productivity in manufacturing that will boost our global competitiveness and attract investment into the nation's manufacturing priorities.

This submission outlines policy initiatives aimed at regaining investment momentum, creating jobs and stimulating economic growth. The priority initiatives broadly are to:

1. **Go narrow and deep in industries** that will support Australia's future employment and economic growth.
2. **Streamline Australia's taxation system** to eliminate inefficient taxes.
3. **Remove superfluous and counterproductive** legislation and regulation.
4. Build more robust collaboration between the **university and private sector** to commercialise products and services aligned to Australia's priority industries.

The Council looks forward to participating in any future discussion about the themes set out in this submission as part of the Department's consultation process. For questions on specific points made in our submission, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research, on 02 8243 7000.

Yours sincerely



Yasser El-Ansary
Chief Executive

¹ Deloitte Access Economics (2018) Private *Equity: Growth and innovation*, April



Introduction

Australia's manufacturing landscape is at a watershed moment of unlocking its potential to deliver future employment and economic growth. Facilitated by technology-enabled businesses and a more global, complex and connected environment, the nature of manufacturing is transforming substantially year-on-year. This change has been intensified by COVID-19 which has catapulted a large portion of the workforce into remote working situations and forced the manufacturing sector to pivot and find new ways of delivery goods that meet today's market needs.

It is critical that supply chains and Australia's manufacturing capability are underpinned by technology as an enabler of businesses across government's six manufacturing priorities. The technology industry has the ability to directly make a significant contribution to high-value economic output² and to lift productivity, global competitiveness and create jobs across the entire economy. A stronger technology capability would represent a significant new building block in designing a resilient Australian manufacturing sector that generates sustainable economic and incomes growth for all, and positions our market with a competitive edge against other developed economies around the world.

The Council welcomes government's consultative approach in seeking input from industry leaders and experts to develop 'road maps' for each sector for the short, medium and long term which will provide a unique opportunity to reshape Australia's manufacturing sector and the associated job and research opportunities for the future. At this critical juncture in our national response to the COVID-19 pandemic, it is vitally important for the nation's economic recovery and Australian jobs that our manufacturing capability can effectively and confidently grow and attract investment to build a resilient economy.

Private capital can play a central role as an important investment and efficiency driver for Australian industries and businesses and in lifting business productivity, competitiveness and growth as part of the national effort to re-start activity across our economy. Funds under management of Australian-based private capital funds topped \$33 billion in 2019, testament to the growth in available capital to support investment into businesses across every industry sector.

The private capital industry can work with government, industry and university sectors to regain the capacity to support the nation's innovation ecosystem, emerging entrepreneurs and their businesses. In June 2020 the Australian Investment Council released a comprehensive plan outlining the views of private capital investment leaders about the priority policy reforms necessary to guide the economy back to growth. [Roadmap to Recovery – Creating a Stronger and More Dynamic Economy](#) sets out priorities which span a mixture of short-term and longer-term reforms that will underwrite the next wave of economic growth.

This submission outlines policy initiatives aimed at regaining investment momentum, creating jobs and stimulating economic growth. The priority initiatives broadly are to:

1. **Go narrow and deep in industries** that will support Australia's future employment and economic growth.
2. **Streamline Australia's taxation system** to eliminate inefficient taxes.
3. **Remove superfluous and counterproductive** legislation and regulation.
4. Build more robust collaboration between the **university and private sector** to commercialise products and services aligned to Australia's priority industries.

² The technology industry directly employs around 580,000 people (5% of Australia's workforce) and contributes more than \$144 billion to the economy each year, representing 6.6% of GDP. [Australia's Digital Opportunity](#), Alphabeta September 2019.



Summary of Recommendations

Recommendation 1: *Streamline Australia's taxation system to eliminate inefficient taxes*

Reduce reliance on corporate and personal tax revenue and work with states to introduce greater harmonisation in regimes and to re-balance the tax mix between direct and indirect taxes.

Recommendation 2: *Remove superfluous and counterproductive legislation and regulation*

Encourage Commonwealth, State and Territory governments to adopt a formal joint reform agenda with coordination and alignment across all agencies. New laws and regulations should be implemented through enabling technology.

Recommendation 3: *Focus on technology and innovation as an enabler for building employment and growth across the economy*

Implement the recommendations in Innovation and Science Australia's *Prosperity through Innovation 2030* report, identify technical skills gaps and develop programs to build a pipeline of talent within Australia and encourage highly skilled immigration as a short-term measure to fill the talent gap.

Recommendation 4: *Focus on developing the industries where Australia has a competitive advantage*

Enhance Australia's manufacturing capability and align it with science and research developments and support Australian businesses to leverage offshore capital and export markets to fund growth and expansion.

Recommendation 5: *Build more robust collaboration between the university and the private capital sectors*

Utilise the expertise of VC fund managers to partner with university research arms for the selection and commercialisation of research and investment into startup and early stage companies which have good potential to provide employment and growth opportunities within Australia.



1. Taxation reform

Reforming Australia's taxation regime is broadly considered to be the policy area with the greatest potential to reinvigorate Australia's economy over the long-term. Australia's taxation system has been the subject of numerous reviews over the past decade, and many of the most significant recommendations set out in reviews remain relevant today. The most comprehensive of the recent reviews is the 2010 Australia's Future Tax System (AFTS) Review, led by former Treasury Secretary, Dr Ken Henry.

Many of the recommendations from that review are yet to be progressed. Taken as a whole, the tax reform blueprint set out in that work represents a compelling, growth-enhancing plan for a staged transformation of the tax mix across federal and state-based tax regimes. Some state jurisdictions within Australia have adopted elements of the blueprint in bringing about reform in their own regimes, but a coordinated national approach has not been agreed. The success of the National Cabinet of heads of government could serve as the perfect foundation on which consensus for reform could be built, and the unity around the common cause of building a stronger and more innovative Australian economy for the future could serve as the catalyst for change that has been absent in the past. Some of the key priority reforms set out in the AFTS Review³, as well as other growth-orientated analysis of our existing tax system, revolve around reducing the headline corporate income tax rate for all businesses to 25%, a step that would deliver incomes growth for all Australians, and at the same time, lift Australia's competitive standing in the global marketplace for capital and talent. A reduction in the corporate income tax rate forms an important part of a broader strategy of shifting the nation's 'tax mix' by reducing reliance on direct taxes – such as personal and corporate income taxes – and re-balancing towards greater reliance on 'user pays' pricing mechanisms and indirect taxes. In the technology-enabled global marketplace in which Australian businesses operate, such a shift is vitally important to building a stronger and more sustainable budgetary position for governments at all levels into the future. A short-term measure that should be considered is capital gains tax relief. This could induce an increase in investments into high-growth businesses.

Recommendation 1: *Streamline Australia's taxation system to eliminate inefficient taxes*

Reduce reliance on corporate and personal tax revenue and work with states to introduce greater harmonisation in regimes and to re-balance the tax mix between direct and indirect taxes.

2. Market deregulation and red tape reduction

The role of technology should be central in any new regulation and legislation to help create an environment that incentivises investment and removes regulatory burdens. Government procurement should play a critically important role in supporting the growth of technology across all areas of social and business policy and programs, helping to turbo-charge the work being done by the Digital Transformation Agency. It is well recognised that red tape and regulatory cost burdens tend to move in cyclical phases every 10-15 years. Removing red tape and introducing greater efficiencies drive increases in productivity, competitiveness and high-value jobs growth. Past experience in Australia suggests that attempts to reduce red tape at a federal and state level have sometimes been narrow in scope, and therefore failed to achieve the desired economic and business outcomes. It may be instructive to revisit the 2013 Coalition Government analysis in *Boost Productivity and Reduce Regulation*⁴ which outlined a whole-of-government framework to reduce the red and green tape burden by at least \$1 billion per year. Amongst numerous recommendations, the report recommended at least two Parliamentary Sittings be dedicated each year to repeal counterproductive or unnecessary regulation, and that COAG meetings – now National Cabinet – include deregulation and red tape as standing items for discussion and review throughout the year. The Council also encourages government to implement the recommendations contained in the Productivity Commission's *Shifting the Dial*⁵ review in 2017, particularly in respect of the opportunity for National Cabinet to adopt a formal joint reform agenda. Reinstatement of the core principles set out in the 2013 report, and the adoption of recommendations from the Productivity Commission's 2017 analysis, should form part of a comprehensive and clear commitment to eliminate red tape costs for businesses over the

³ [Australia Future Taxation System Review](#)

⁴ [The Coalition's Policy to Boost Productivity and Reduce Red Tape 2013.](#)

⁵ [Shifting the Dial: 5-year productivity review](#), Productivity Commission 2017



short and medium-term. Governments and regulators should resist the temptation to develop new laws and regulations and implement additional red tape only where there is a clear and unavoidable need, for example where industry is not able to independently react to market ineffectiveness or consumer harm. Where new laws and regulations are required, they should be implemented through enabling technology. Government regulators should also expand the use of regulatory sandboxes to help dictate new ideas and products, building on concepts of the enhanced regulatory sandbox announced by the Government in June⁶.

Recommendation 2: *Remove superfluous and counterproductive legislation and regulation*

Encourage Commonwealth, State and Territory governments to adopt a formal joint reform agenda with coordination and alignment across all agencies. New laws and regulations should be implemented through enabling technology.

3. Innovation Technology and Skills

Innovation, technology and skills Innovation, technology and skilled labour have the capacity to directly contribute to economic output and to indirectly lift productivity, global competitiveness and create jobs across the economy. Despite a skilled labour force, Australia ranks second last in the OECD – ahead of Mexico – for the relative size of our technology sector and as of 2016, was 34% behind our OECD peers across four core areas of digital innovation, including the application of digital technologies to existing industries. These results show the huge capability gaps that Australia can make up, but only if the right policy settings are adopted. Notwithstanding our relatively low global rankings, the domestic technologies sector contributes \$122 billion each year, or 6.6% of GDP, to the Australian economy⁷. This is expected to grow 40% between 2018 and 2023. The productivity-enhancing impact of a vibrant innovation and technology sector can extend across almost all existing industries while strong domestic innovation and technology skills can support and develop new sectors, such as strategic manufacturing capabilities. For Australia to make material gains in innovation and technology, government policies need to encourage businesses to take risks, to develop new ideas, new products and to find new markets. The *Australia 2030: Prosperity through Innovation*⁸ report by Innovation and Science Australia (ISA) set out 30 key reform initiatives across five key strategic pillars: education, industry, government, research and development, and culture and ambition. The recommendations are targeted at creating a more knowledge intensive innovative economy that is capable of delivering a higher standard of living for current and future generations of Australians. Increasing business investment in research and development, more impactful collaboration between universities and businesses to commercialise research discoveries, and lifting STEM capabilities within our workforce are central to achieving a more advanced economy in years to come.

Recommendation 3: *Focus on technology and innovation as an enabler for building employment and growth across the economy*

Implement the recommendations in ISA's *Australia 2030: Prosperity through Innovation* report, identify technical skills gaps and develop programs to build a pipeline of talent within Australia and encourage highly skilled immigration as a short-term measure to fill the talent gap.

4. International competitiveness

Australia has an opportunity to emerge from the COVID-19 pandemic as a more competitive nation in the global marketplace. The key elements to our success will be prioritising industries where we already are – or could be – world leaders, and 'going narrow and deep' in developing these industries. Most of these elements can be achieved by focussing on a small but targeted range of the policy reform areas identified above. In addition, growing industry sectors across and the Australian economy will require a reliable flow of inbound investment capital. As a net importer of capital, Australia must implement policy settings that not only support, but encourage foreign investment into Australian businesses. In a recent address⁹ to the National Press Club, the Industry, Science and Technology Minister, the Hon Karen Andrews MP, highlighted the need to align manufacturing with science and research efforts in areas where Australia is best placed to excel, such as: biomedical

⁶ Media Release, [Regulatory Sandbox will boost fintech innovation and competition](#), Senator Jane Hume, 28 May 2020

⁷ [Deloitte Access Economics, Australia's Digital Pulse 2019.](#)

⁸ [Australia 2030: Prosperity through Innovation.](#)

⁹ [National Press Club Address](#), The Hon Karen Andrews MP, May 2020



technology and therapeutics, as well as FinTech, to support the commercialisation of good ideas, and to improve access to export markets. This points to building a strong foundation to enhance our domestic capability. This will help build a domestic manufacturing industry that will sustain the economy and make Australia internationally competitive. We recommend the government significantly enhances Australia's Export Market Development Grant (EMDG) program to enable SME market businesses who already have a demonstrable track record in the area to accelerate growth through the sale of high-value goods and services offshore.

Recommendation 4: *Focus on developing the industries where Australia has a competitive advantage*

Enhance Australia's manufacturing capability and align it with science and research developments and support Australian businesses to leverage offshore capital and export markets to fund growth and expansion.

5. Commercialisation of Research

Research is a central point of collaboration between universities and industry. It has, however, been widely recognised for several years that more university and industry collaboration is needed to commercialise research projects. The government has introduced policies aimed to address this, mainly by encouraging private sector companies to collaborate with public institutions such as universities and through introducing initiatives like the Cooperative Research Centre Projects, with funding on offer to partnerships looking to commercialise research. However, the current state of Australian industry-university research collaboration is mixed, with collaboration appearing relatively strong in some contexts and absent in others. Australia is well-positioned to emerge from the COVID-19 recession with innovative and new industries that support future employment and economic growth. With the right policy settings, private sector collaboration with universities to commercialise research into viable products and companies, will be an important part of this recovery process. To this extent, the private capital sector can play a pivotal role in realising the research from the early stage startup phase to commercialisation and developing fast-growth companies.

Recommendation 5: *Build more robust collaboration between the university and the private capital sector*

Utilise the expertise of the venture capital fund managers to partner with university research arms for the selection and commercialisation of research and investment into startup and early stage companies which have good potential to provide employment and growth opportunities within Australia.