



**Australian Government**

# Industry Innovation and Competitiveness Agenda

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An action plan for a stronger Australia





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An action plan for a stronger Australia

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# Foreword



Strengthening Australia's competitiveness is the key to our future prosperity.

Australia has experienced 23 years of economic growth. Over the last three decades the value of our exports has risen four-fold. Exports now represent one dollar in every five of national income.

However, our success should not be an excuse for complacency. Commodity prices have fallen from their peak in 2011; the deterioration of Government finances since 2008 has made Australia a borrower rather than a lender; our population is ageing; and multifactor productivity has been flat for a decade.

Our proximity to the fastest growing region in the world not only allows access to an untold number of customers; it also means proximity for suppliers and competitors to our market.

Our competitors are cutting taxes, reducing compliance costs, building infrastructure and reining in government expenditure. We need do likewise if we are to compete with them.

Improving Australia's competitiveness is a central part of the Government's Economic Action Strategy to build a strong, prosperous economy and a safe, secure Australia.

We've already scrapped the carbon tax and mining tax; removed more than 10,000 pieces of unnecessary legislation and regulations; established one-stop shops for environmental approvals; commenced the largest infrastructure construction programme in Australian history; and signed free trade agreements with Japan and Korea.

This is just the start—because job creation, growth and competitiveness need constant attention.

The guiding principle of the Government's Industry Innovation and Competitiveness Agenda is to focus on Australia's strengths, not to prop up poor performers.

The Agenda has drawn on the insights of my Business Advisory Council and other experts.

The Agenda sets out four ambitions that Australia must pursue:

1. a lower cost, business friendly environment with less regulation, lower taxes and more competitive markets;
2. a more skilled labour force;
3. better economic infrastructure; and
4. industry policy that fosters innovation and entrepreneurship.

This Agenda is an integral step along the path of economic growth and prosperity. I welcome the debate this paper will foster. Improving Australia's competitiveness is essential in building the stronger economy that we all want.

**The Hon Tony Abbott MP**  
*Prime Minister of Australia*



# Executive Summary

## Opportunities and challenges for the Australian economy

The increasing economic strength of Asia and growing integration of the global economy present great opportunities for Australia. Asia is driving huge demand for a diverse range of goods and services. At the same time, new markets are being created and many services once only delivered locally are now regularly imported or exported, as trade barriers fall and technology improves.

To seize these opportunities, Australia will need to compete with the best in the world. Many of our competitors have already recognised these new markets and opportunities. A number of Asian economies are climbing up the value chain, shifting from largely low skilled industries to high skill jobs while maintaining a relatively low wage structure. Other advanced countries are aggressively reforming their economies. They are reducing barriers to trade in goods and services, reining in inefficient public spending, reducing taxes, deregulating and improving competition, stimulating entrepreneurship, investing in infrastructure and giving research a greater commercial focus. Only through similarly ambitious reforms can Australia secure its future as a high wage economy with a strong social welfare safety net in the face of this vastly more competitive world.

Australia compares well against a number of international economic benchmarks, but in recent years our competitiveness has weakened. Australia ranks around the average of Organisation for Economic Co-operation and Development (OECD) nations on most aspects of government policy, and we rate well on dimensions such as macroeconomic and financial sector policies, income and wealth, jobs and earnings, and education and skills. We were fortunate to avoid the worst of the global financial crisis and the resulting slow recovery, benefitting both from previous economic reforms and the mining investment boom.

However, multifactor productivity has stalled for a decade and actually fell in 2013, which is the worst performance of 15 countries assessed by the Productivity Commission. Employment growth has been weak and the jobs created have tended to be in sectors funded directly or indirectly by government. Net public indebtedness has increased by \$270 billion or almost one fifth of Gross Domestic Product (GDP) nationally over the five years to 2012-13, turning the public sector from a net creditor into a net debtor. Meanwhile, our rankings have been falling on world competitiveness indexes, and Australia rated last out of 25 countries on manufacturing cost competitiveness in 2014. We also face the challenge of an ageing population and we will need to find new sources of growth as the resources investment boom fades.

Without change, Australia risks being out-competed in the world market, resulting in fewer jobs and lower economic growth. If left unaddressed, our declining competitiveness will represent the start of an unacceptable slide into mediocrity. Improving our competitiveness is essential if we are to sustain and enhance the living standards of all Australians.

## The Government's economic vision

The Government through its Economic Action Strategy is refocusing government, revitalising Australia's businesses and entrepreneurial drive, and equipping our economy for the challenges ahead, to prevent Australia's economy from drifting.

The Government's vision is of a nimble economy, capitalising on Australia's strengths. It includes businesses and workers equipped with the skills and incentives to adapt to changing economic conditions and able to seize new opportunities.

Central to this vision is the need for strong and self-reliant Australian businesses: large and small; international, national, regional and local; exporters, importers and domestic suppliers; in resources, services, manufacturing and agriculture. It is only through businesses and industries that are able to compete successfully on their own merits that the jobs and prosperity of the future can be secured.

While established businesses that have already had commercial success will be vital to Australia's future, the Government understands the importance of encouraging entrepreneurship. Entrepreneurship and a flourishing start-up community promote job creation and productivity growth. These types of businesses benefit the broader economy by testing new ideas, developing new products and implementing new business models. Creating the conditions which encourage risk taking, entrepreneurship, investment and hard work is important to foster innovation in Australia.

Likewise, much will be required of our workforce, to provide the skills and generate the ideas needed for businesses to succeed and for jobs and incomes to grow. We will particularly need people with a firm grounding in science, technology, engineering or maths if Australia is to compete successfully. More generally, in an increasingly globalised economy, it will be critical that all businesses have the people and skills to innovate, the networks to remain competitive in domestic markets, and the know-how to identify opportunities in global markets.

The Government's vision also includes a leaner and more focused model of government itself. Government has an important role in fostering the right economic environment, so that businesses can create or capitalise on good opportunities wherever and whenever they emerge. It also needs to address significant market gaps and deficiencies. Where genuine social and environmental problems arise, governments must ensure their responses are measured and effective, while minimising adverse side-effects and business uncertainty. But in recent years, government has overreached: spending too much; regulating too much; and borrowing too much. This has hurt Australia's competitiveness and encouraged too many Australians to look

to the public sector not the private for their future. The Government aims to help restore the balance by freeing businesses and consumers of burdensome government constraints and encouraging excellence, not dependence.

The Government has begun with the urgent task of getting the Budget back under control, so as to restore business and investor confidence that the Government will live within its means without debt and taxes spiralling. The Government will continue to work toward that goal. The Government has also advanced other reforms to boost competitiveness and productivity. For example, it has extended trade liberalisation through trade agreements with South Korea and Japan, held the first 'repeal day' to cut red tape, and set in train significant new investment in public infrastructure. We recognise that much more needs to be done. This is why we are now announcing further reforms and proposals to lift competitiveness. It is also why we are instituting a number of longer-term processes looking in detail at taxation, the Federation, the financial system, competition policy, workplace relations, energy, agriculture and the development of northern Australia, among other issues, to provide roadmaps for further productivity-enhancing reform.

The fundamental aim of the Government's Economic Action Strategy is to provide a competitive environment that allows businesses to create the jobs and prosperity needed for strong, secure communities and to maintain high living standards in Australia. This will also provide the capacity to address genuine social and environmental needs in ways that can be sustained in the future.

## **The Competitiveness Agenda**

As a key business-focused element of the Economic Action Strategy, the Industry Innovation and Competitiveness Agenda brings together and builds on the Government's other economic reform efforts to make the most of Australia's strengths and business opportunities.

Through the Competitiveness Agenda, the Government aims to achieve four overarching ambitions:

- a lower cost, business friendly environment with less regulation, lower taxes and more competitive markets;
- a more skilled labour force;
- better economic infrastructure; and
- industry policy that fosters innovation and entrepreneurship.

The specific actions the Government will undertake through the Competitiveness Agenda are summarised below and detailed in Part B of this report. Major new reforms that the Government will initiate this term are outlined in Box 1.

### Box 1: Key Initiatives

- Encourage employee share ownership (Proposal 15, page 76)
- Establish Industry Growth Centres (Proposal 13, page 72)
- Reform the vocational education and training sector (Proposal 10, page 52)
- Promote science, technology and mathematics skills in schools (Proposal 9, page 51)
- Accept international standards and risk assessments for certain product approvals (Proposal 1, page 31)
- Enhance the 457 and investor visa programmes (Proposal 11, page 55 and Proposal 12, page 56)

The reforms and proposals draw on advice from the Prime Minister's Business Advisory Council; departmental reviews and consultations with businesses and the community; and economic research and advice from bodies such as the OECD, the World Economic Forum and the Productivity Commission. Some initiatives have already undergone extensive consultation and development and will only require fine-tuning as they are implemented. Other proposals will require significant further consultation and analysis to ensure that we are on the best path forward and to prioritise our reform efforts. Our aim is to progressively finalise and announce additional competitiveness initiatives, consistent with our steady and purposeful approach to government. The timing of these and other key economic initiatives is outlined in Part C.

Lifting competitiveness will be an ongoing challenge, and further reforms to promote the Competitiveness Agenda's four ambitions will be developed over the longer term, drawing on further consultation with business and lessons from the implementation of the initial measures.

The Competitiveness Agenda will support and reinforce Australia's G20 growth strategy. The world's major economies have committed to undertake ambitious reforms with the goal of lifting collective G20 GDP by more than 2 per cent above the current trajectory over five years. G20 member countries' growth strategies will be announced in November 2014 at the G20 Leaders' Forum and will focus on reforms in investment and infrastructure, trade, competition, employment and participation. As G20 president, Australia will show leadership in pursuing a new wave of economic reform.

## ① BUSINESS ENVIRONMENT

The Government will make it easier and cheaper to do business by:

- reducing the burden of regulation;
- reducing the burden of taxation; and
- improving access to international markets and opening up the economy to greater domestic and international competition.



## ② LABOUR FORCE

The Government is committed to increasing the skills of our workforce to better prepare for the jobs and industries of the future by:

- improving Australia's education and training system;
- attracting the best and brightest to Australia;
- returning our workplace relations system to the sensible centre; and
- helping parents stay in the workforce.



## ③ INFRASTRUCTURE

To meet our country's economic infrastructure needs for the 21st century, the Government is increasing public investment and encouraging greater private investment in infrastructure, and improving infrastructure project selection, funding, financing, delivery and use.



## ④ INDUSTRY POLICY

The Government is refocusing industry policy to drive innovation and entrepreneurship, not dependence on government handouts and protection. Industry policies will be re-targeted to capitalise on Australia's strengths and accelerate the growth prospects of our high-potential small and medium sized enterprises and most promising sectors. We will consult with industry and researchers on a plan to focus the Government's \$9.2 billion per year investment in research to get a better commercial return.



## AMBITION 1:

### A LOWER COST, BUSINESS FRIENDLY ENVIRONMENT

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The Government will make it easier and cheaper to do business by:

- reducing the burden of regulation;
- reducing the burden of taxation; and
- improving access to international markets and opening up the economy to greater domestic and international competition.

#### **Reducing the regulatory burden**

Regulation is necessary for a well-functioning economy and society, but too often the first reflex of governments has been to regulate, adding layer upon layer of costs on business. The Government will remove inefficient regulation, simplify compliance and improve regulator responsiveness to help small and large businesses thrive.

Actions already taken:

- Commenced deregulatory initiatives saving more than \$700 million per year in reduced red and green tape, including as part of our first Repeal Day on 26 March 2014.
- Started an audit of Commonwealth regulations to better understand the scope and scale of the costs they impose on businesses, individuals and community organisations. This will be completed by the end of the year.

Actions to come:

- The Government will remove \$1 billion of red tape each year through the deregulation agenda.
- The Government will continue to work with the States and Territories to streamline environmental approvals by establishing one-stop shops. The Government is working closely with States and Territories to negotiate bilateral agreements to implement this policy. Draft agreements with a number of jurisdictions have already been released for public consultation. The introduction of the one-stop shop reform will save Australian businesses around \$420 million every year.
- The Government will adopt the principle that if a system, service or product has been approved under a trusted international standard or risk assessment, Australian regulators should not impose any additional requirements unless it can be demonstrated that there is good reason to do so. All Commonwealth Government regulatory standards and risk assessment processes will be reviewed against this principle.

- As a first step, the Government will enable Australian manufacturers of medical devices to register routine medical devices using conformity assessment certification from European notified bodies.
- The regulation of industrial chemicals is another early priority for reform.
- The Government will drive cultural change within regulators and lower compliance costs by better monitoring regulator performance and engagement with business.
- The Government will commission advice about the viability of expanding access to the Commonwealth workers' compensation scheme and work health and safety laws. The advice will consider methods of access for employers who favour one set of arrangements yet would prefer to pay premiums rather than self-insure. This will reduce business compliance costs and builds on changes announced on Repeal Day, allowing self-insuring national businesses to operate under one workers' compensation scheme right across Australia.
- The Government will also encourage States and Territories to improve consistency in construction regulation at a local level where there are variations that override requirements of the National Construction Code. Greater consistency will streamline construction regulation and reduce building costs.

## Reducing the taxation burden

Australian governments rely on tax revenue to fund the public investment and services on which society and the economy depend, but this comes at a cost to individuals, businesses and the economy. The Government will work to reduce taxes, simplify the tax system and increase certainty.

Actions already taken:

- Repealed the Carbon Tax.
- Repealed the Minerals Resource Rent Tax.
- Dropped or amended 58 tax and superannuation measures as part of dealing with the legacy of 96 announced, but unenacted, measures initiated by previous governments.
- Commenced reducing compliance costs for taxpayers by \$56 million a year by making changes to the way tax obligations are met and reported. An estimated 372,500 small businesses will benefit from these administrative changes to pay as you go (PAYG) instalment thresholds.

Actions to come:

- The Government will improve the tax treatment of Employee Share Schemes (more detail under Ambition 4).
- The Government will deliver a White Paper on the Reform of Australia's Tax System, which will be guided by the following objectives:
  - simplifying the tax system and reducing taxpayers' compliance costs, including

- by improving regulatory certainty, to reduce the regulatory burden on business (particularly small business), community organisations and individuals;
- improving tax settings for productivity, international competitiveness and economic growth;
- improving incentives to work, including through the interaction of the tax and transfer systems; and
- improving incentives to save.
- The Government will cut the company tax rate by 1.5 percentage points to 28.5 per cent, consistent with the Government’s election commitment and provisions made in the 2014-15 Budget.

## **Increasing domestic and international competition**

The Government will further open our economy to domestic and international competition and investment to improve access to high-quality, low-cost goods and services. This will benefit consumers and enhance the competitiveness of businesses that rely on these goods and services as inputs. Greater competition within Australia will also provide incentives for domestic producers to innovate and lift their productivity, while greater market access will enable exporters to achieve global scale.

Actions already taken:

- Concluded Japan and South Korea trade agreements, which will reduce import costs and improve our export market access.
- Endorsed, with State and Territory Trade and Investment Ministers, five priority areas where governments will collaborate to attract and facilitate foreign investment in Australia: agribusiness and food; major infrastructure; tourism infrastructure; resources and energy; and advanced manufacturing, services and technologies.
- Appointed investment specialists to Austrade to facilitate foreign direct investment projects to support these foreign investment priorities.

Actions to come:

- The Government will continue to work towards concluding a free trade agreement with China that boosts trade and investment and builds upon our strong and rapidly growing economic relationship.
- The Government will consult with industry to co-design a ‘trusted trader’ programme to streamline customs procedures, including through reduced paperwork and inspections for trusted exporters and importers, to allow them to get their goods to market faster. The Government will work with other governments to facilitate trade through international trusted trader arrangements, consistent with the B20 recommendation for practical trade facilitation through cuts to red tape.

- The Government will encourage State and Territory governments to remove those remaining barriers that restrict foreign investors in professional services from forming certain types of legal entities.
- The Government will continue to examine the existing coastal shipping regulations, which have raised coastal shipping costs and reduced the competitiveness of shipping-dependent industries without a real boost to Australian shipping.
- The Government, through the Energy White Paper, will help to make the energy sector and energy prices more competitive through a renewed focus on privatisation, deregulation and responding to potential near-term East Coast gas shortages.
- The Government will respond to the recommendations in the Competition Policy Review's final report, to increase competition and thereby drive innovation and productivity. The Review has been asked to fully consider competition policies, laws and institutions.
- The Government will better balance financial system efficiency with stability and consumer protection, in light of recommendations from the Financial System Inquiry.

## AMBITION 2:

### A MORE SKILLED LABOUR FORCE

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The Government is committed to increasing the skills of our workforce to better prepare for the jobs and industries of the future by:

- improving Australia's education and training system;
- attracting the best and brightest to Australia;
- returning our workplace relations system to the sensible centre; and
- helping parents stay in the workforce.

#### **Improving education and training system**

Business-relevant, high-quality education and training boosts innovation, encourages investment and supports jobs growth. The Government aims to create a world's best practice higher education and Vocational Education and Training (VET) system that provide the skills needed for jobs of the future.

Actions already taken:

- Established a Teacher Education Ministerial Advisory Group to improve schooling outcomes, and a review of the Australian Curriculum.
- Announced expanded access to demand-driven funding from 1 January 2016 at a cost of \$820.4 million over three years, as well as allowing higher education providers to set course fees.
- Established the Trade Support Loans programme to provide income contingent loans of up to \$20,000 for people learning a trade in an area of skills need, at a cost of \$439 million over five years.
- Created a new Industry Skills Fund (with \$476 million over four years) to support the training needs of small and medium sized businesses.
- Refocused the delivery of apprenticeship support services on improving participation and completion rates, with funding of \$200 million per year.
- Launched two pilot programmes (at a cost of \$44 million) through the youth stream of the Industry Skills Fund to assist in the training and employment of young people in regional Australia and areas of identified higher levels of youth unemployment or disengagement.

Actions to come:

- The Government will foster further student engagement with science, technology, engineering and mathematics (STEM) by providing an additional \$12 million to:
  - assist to develop and implement ‘Mathematics by inquiry’ programmes for primary and secondary schools, which will be similar to other innovative online curriculum resources supporting the Australian Curriculum;
  - assist to develop and implement the ‘Coding across the curriculum’ programme to enhance computer programming skills across the curriculum;
  - provide seed funding to pilot an innovation-focused ‘P-TECH’ styled secondary education initiative; and
  - increase student participation in ‘Summer schools for STEM students’, particularly for girls, disadvantaged and Indigenous students, including those living in regional and remote areas.
- The Government will focus the VET system on meeting industry needs, including by:
  - continuing to streamline the VET system’s governance and advisory arrangements; and
  - continuing to work with the States and Territories on system improvements, including a possible refocusing of VET in schools and school-based apprenticeships.
- The Government will reduce red tape in the higher education sector by simplifying and reducing duplication of reporting requirements.

### **Attracting the best and brightest to meet Australia’s skill needs**

Highly skilled migrants contribute to a strong and vibrant economy, bringing know-how, innovation and entrepreneurship and also helping to plug short-term skills gaps. As part of the Competitiveness Agenda, the Government is taking further action to facilitate skilled migration, through reforms to elements of both the temporary and permanent migration programmes, while maintaining protections to ensure that businesses do not bring in foreign workers where Australians are able to do the job.

Actions already taken:

- Allocated over two thirds of total permanent migration places to the skills stream.
- Increased employer-sponsored visas to meet skill gaps where required skills are not available locally.

Actions to come:

- The Government will improve business access to 457 visas for skilled migrants, while improving programme integrity, to ensure that sponsored workers on 457 visas are a supplement to, and not a substitute for, the local workforce. Consistent with the

recommendations of an Independent Integrity Review, the Government will reform sponsorship requirements; streamline arrangements for existing approved sponsors; streamline the visa application process; reform English language and skill requirements; and move to a more-effective risk-based approach for compliance and monitoring.

- The Government will improve the Significant Investor visa programme, including by involving Austrade in the process of determining eligible complying investments; aligning qualifying investments with Australia's five investment priorities (outlined in Ambition 1); and introducing a premium stream for people investing more than \$15 million.

## **Returning the workplace relations system to the sensible centre**

The workplace relations system has an important role in ensuring workers' rights, pay and conditions are fair and appropriate. At the same time, businesses need the flexibility to adapt and seize new opportunities and workers must be free to negotiate working arrangements that suit their personal ambitions and circumstances. The Government is committed to returning our workplace relations system to the sensible centre.

Actions already taken:

- Introduced the Building and Construction Industry (Improving Productivity) Bill 2013 to re-establish the Australian Building and Construction Commission.
- Introduced the Fair Work (Registered Organisations) Amendment Bill 2014 to establish a Registered Organisations Commission to better align the responsibilities of, and penalties for, officers of registered organisations with those of company directors.
- Introduced the Fair Work Amendment Bill 2014 to: apply good faith bargaining rules to negotiations for, and remove the effective union veto power over, 'greenfields' agreements; ensure that the scope for workers and employees to negotiate individual flexibility arrangements is not unduly limited; reform rules governing union right of entry; and implement a number of recommendations from the 2012 Fair Work Review.

Actions to come:

- The Government will further amend the Fair Work laws to ensure protected industrial action cannot be taken unless genuine and meaningful negotiations have occurred, and require productivity improvements to be discussed in enterprise agreement negotiations.
- The Government will task the Productivity Commission to review Australia's workplace relations framework, including the Fair Work laws. Any recommendations accepted by the Government will be taken to the next election.

## **Boosting parents' participation in the workforce**

The Government aims to ease the labour cost pressures for employers and the financial pressure for families when a woman takes time off work to have a child, and to ensure that child care arrangements are affordable and appropriate.

Actions already taken:

- Tasked the Productivity Commission to examine Childcare and Early Childhood Learning. The Government will respond to any recommendations once the Commission makes its Final Report.

Actions to come:

- The Government will expand the Paid Parental Leave scheme to provide eligible parents with 26 weeks of replacement wages (up to a maximum of \$50,000), plus superannuation, to enable them to take time off work to care for their new child.

## AMBITION 3:

### BETTER ECONOMIC INFRASTRUCTURE

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To meet our country's economic infrastructure needs for 21st century, the Government is committed to increasing public investment and encouraging greater private investment in infrastructure, and improving infrastructure project selection, funding, financing and delivery.

Roads, rail, ports, airports, energy, water and communications networks are key to a country's competitiveness, but Australia's current economic infrastructure will not be able to meet our future needs. Australian businesses rank infrastructure as one of the highest reform priorities. Population growth and expected increases in international trade mean we must invest more in economic infrastructure and better utilise our existing assets. The Government is committed to world's best practice in infrastructure policy.

#### **Greater public and private investment in economic infrastructure**

Actions already taken:

- Increased total Commonwealth investment in transport infrastructure to \$50 billion through to 2019-20.
- Provided, as part of this investment, \$11.6 billion to establish an Infrastructure Growth Package, which should reduce congestion and improve market access for goods and labour. This includes:
  - \$5 billion over five years toward the Asset Recycling Initiative, which provides incentive payments for the States and Territories to sell assets and recycle the sale proceeds into new productivity-enhancing infrastructure – this will leverage close to \$40 billion of new infrastructure investments;
  - \$2.9 billion for the Western Sydney Infrastructure Plan, which will support the new Western Sydney airport and provide the necessary transport infrastructure for Western Sydney's projected growth; and
  - measures to expedite infrastructure investments, including work on major projects such as Melbourne's East West Link Western Section (stage 2), Adelaide's North South Corridor, the Perth Freight Link, the Toowoomba Second Range Crossing, and the National Land Transport Network in the Northern Territory, and further funding for National Highway Upgrades, Black Spots and Roads to Recovery programmes.
- Provided a concessional loan of up to \$2 billion to the New South Wales Government to accelerate the delivery of stage two of the WestConnex motorway project in Sydney. This is in addition to the \$1.5 billion in Commonwealth funding already allocated.
- Appointed a Senior Investment Specialist to Austrade to facilitate foreign investment in Australian infrastructure.

- Recalibrated the National Broadband Network to use the most cost effective technology to allow a faster and more affordable rollout.
- Established a ministerial working group to identify priorities for fast-tracking investment in water infrastructure.

Actions to come:

- The Government will consider scope for privatising mature Commonwealth assets and the further use of capital recycling.

## **Improving economic infrastructure project selection, funding, financing and delivery**

Actions already taken:

- Established new governance arrangements for Infrastructure Australia to provide greater accountability and clarity of roles and responsibilities.
- Tasked Infrastructure Australia to undertake 5-yearly evidence-based audits of Australia's infrastructure asset base, develop a 15-year infrastructure plan and evaluate proposals for nationally significant economic infrastructure.

Actions to come:

- The Government will use the 15-year infrastructure plan commissioned from Infrastructure Australia to inform future infrastructure investment.
- The Government will work with the States and Territories to progress reforms in response to the Productivity Commission's Inquiry into Public Infrastructure, to realise the more than \$1 billion in infrastructure cost savings estimated to be available annually.

## AMBITION 4:

### INDUSTRY POLICY THAT FOSTERS INNOVATION AND ENTREPRENEURSHIP

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The Government is refocusing industry policy to drive innovation and entrepreneurship, rather than create dependence.

The Government will no longer borrow to give money to big international corporations or to struggling businesses. Industry policies will be re-targeted to capitalise on Australia's strengths and accelerate the growth prospects of our high-potential small and medium sized enterprises and most promising sectors. The Government will facilitate winning strategies by businesses that spend their own money and take their own risks.

The Government is also acting to better translate Australia's good ideas into commercial success. Australia performs well on many measures of research excellence but cannot rely on research expertise alone. Our future prosperity depends on our capacity to turn research into commercial outcomes that lift innovation, help successful Australian businesses grow, and boost Australia's productivity and exports.

Actions already taken:

- Established the \$484 million Entrepreneurs' Infrastructure Programme and the \$476 million Industry Skills Fund to be delivered through a Single Business Service initiative. This will streamline the delivery of business services through [www.business.gov.au](http://www.business.gov.au) and a single call centre.
- Assisted business to benefit from international growth opportunities by:
  - delivering a 'Team Australia' approach to support trade and investment through leadership of trade missions by the Prime Minister and senior Cabinet Ministers to priority markets;
  - returning \$200 million in capital to the Export Finance and Insurance Corporation to help small and medium enterprises increase exports; and
  - boosting Export Market Development Grants by \$50 million.
- Established the \$50 million Manufacturing Transition Programme to assist Australian manufacturers to transition to higher value activities and improve competitiveness.
- Established the \$155 million Growth Fund to help build the jobs of the future in regions affected by the closure of car manufacturing plants.

Actions to come:

- The Government, in consultation with industry, will establish Industry Growth Centres at a cost of \$188.5 million over four years to drive growth and job creation, initially for five promising industries. The Centres will:
  - develop and implement industry roadmaps to lift competitiveness;
  - advise governments on reducing regulatory burdens;
  - improve collaboration between industry and researchers; and
  - provide information and market connections for groups of small and medium enterprises seeking to enter global value chains.
- The Government will consult with industry and researchers on a plan to focus the Government's \$9.2 billion per year investment in research to get a better commercial return, including by:
  - establishing the Commonwealth Science Council to bring together the leaders of Australia's industry, research and government to advise on national priorities for science and research;
  - working with the research sector and industry to identify and implement policy and programme changes to ensure our research effort addresses national priorities and supports the translation of research into commercial outcomes; and
  - sharpening incentives for collaboration between research and industry, ensuring research training adequately prepares researchers and supporting the provision and maintenance of world-class research infrastructure.
- The Government will establish a Medical Research Future Fund from 1 January 2015. All savings from health reforms announced in the 2014-15 Budget will be reinvested in the fund until its balance reaches \$20 billion.
- The Government will improve the tax treatment of Employee Share Schemes from 1 July 2015, at a cost of \$200 million over four years, with particular benefits for start-ups, to encourage greater entrepreneurship and so that good ideas can be commercialised in Australia.
- The Government will consult with industry on the appropriate regulatory approach for start-ups that seek to access crowd-sourced equity funding.
- The Government will adopt small business engagement principles so that Government agencies pay better attention to small business needs in setting and implementing regulations and other policies.

Part A

THE CASE FOR REFORM

# The Case for Reform

Australia has enjoyed 23 years of uninterrupted economic growth, in large part due to the economic reforms of past decades and the massive boost to our incomes from the resources boom. Our living standards have consistently been in the top dozen in the world over the past two decades.

Nonetheless, Australia faces some difficult challenges and adjustments in the years ahead. Declines in the prices of our exports have wiped around \$40 billion from national income per year since the commodity price peak in 2011, and further reductions are expected (ABS, 2014b). Australia's public finances have deteriorated markedly since the global financial crisis, as governments across Australia spent money they did not have. Australia's public sector collectively shifted from being a net creditor of 7.3 per cent of Gross Domestic Product (GDP) in 2007-08 to a net debtor, with public debt projected to increase to around \$324 billion by 2016-17, or over 18 per cent of GDP (Commonwealth of Australia, 2014b). Meanwhile, after growing by around 2 per cent annually on average in the 1990s, multifactor productivity has essentially been flat since 2003 (Productivity Commission, 2013c). Our production costs have become some of the highest in the world and overall jobs growth has been soft outside publicly funded sectors. Australia also faces some difficult adjustments as our population ages. The number of working-age people to support each retiree has already fallen from seven and a half in 1970 to five today, and is expected to fall to below three by 2050 (Commonwealth of Australia, 2010).

These domestic challenges alone necessitate action, but Australia also faces an increasingly competitive and uncertain international environment. While the opportunities are great, the changes taking place in the international economy also present further challenges to our living standards. Only by reforming and grasping the opportunities which the world affords us can we assure our living standards in the decades ahead.

## Opportunities and challenges in the global economy

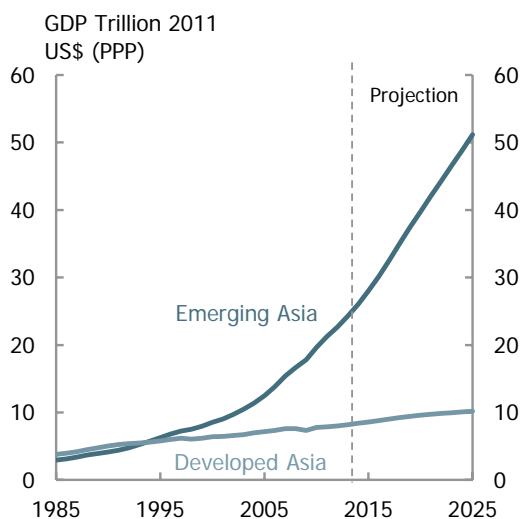
The economic strength of Asia is changing the world. Economies like China, India, Indonesia, Vietnam, Malaysia and the Philippines have grown dramatically over the past 30 years and this is projected to continue (Au-Yeung et al, 2013). While similar to the experience of earlier movers like Japan and South Korea, the scale of the current rise is unprecedented. By 2025, China will be the largest economy in the world and the GDP of emerging Asia<sup>1</sup> will be around US\$51 trillion (Chart 1),<sup>2</sup> approximately five times all the already-developed Asian economies combined (Au-Yeung et al, 2013). Emerging Asia represented around 9 per cent of the global economy in 1985. By 2025 it will be around 40 per cent (Au-Yeung et al, 2013).

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<sup>1</sup> Emerging Asia includes: China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

<sup>2</sup> Purchasing power parity in 2011 dollars.

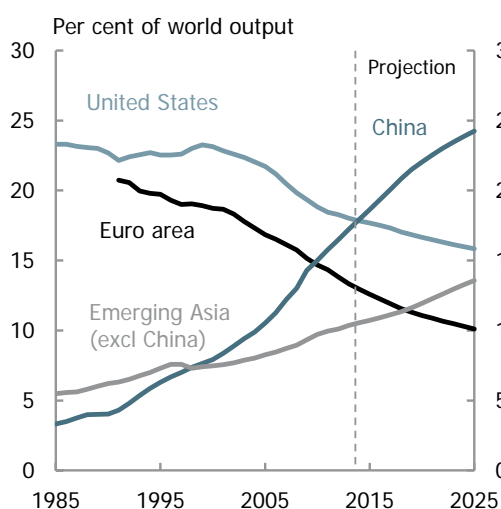
Chart 1: The growth of emerging Asia



Data Source: Au-Yeung et al, 2013.

Meanwhile, many Asian economies are becoming major new suppliers of these same goods and services, bringing serious competition to the global stage (Chart 2). To date, this has mainly occurred in less skill-intensive goods and services. Emerging Asia has increased its share of global manufacturing output from around 6 per cent in 1982 to 29 per cent in 2012 and its share of services exports has grown from 6 per cent in 2003 to 11 per cent last year (United Nations, 2013; 2014). As Asian economies

Chart 2: The shifting centre of economic gravity



Note: GDP adjusted for purchasing power parity (2011 prices).

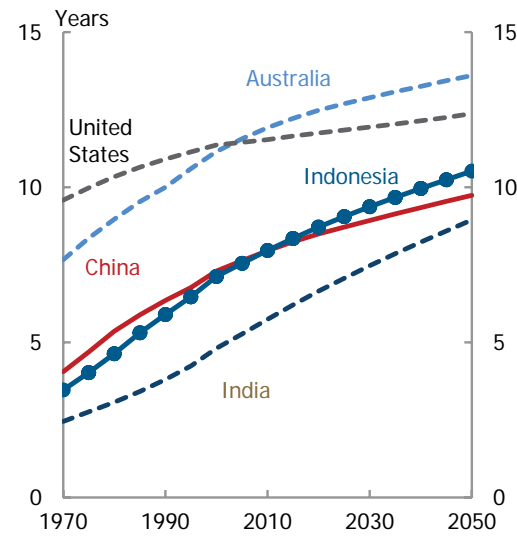
Data Source: Au-Yeung et al, 2013.

The expansion and enrichment of Asia's middle class is increasing demand for all manner of goods and services, from energy, high quality food products, to health care, education, tourism and financial services. For example, by 2050 the real value (in 2009 US dollars) of beef consumption in China is projected to rise by 236 per cent, dairy consumption by 74 per cent, and sugar consumption by 330 per cent (Hamshire et al, 2014). More generally, China's share of global demand for luxury goods is projected to double to around 20 per cent by 2020 (CLSA, 2011).

invest in education, skill up (Chart 3) and move up the value chain, they are producing more advanced goods and services. In 2000, China produced around 6 per cent of the world's communication equipment; by 2010 this had increased to 26 per cent (National Science Board, 2012). Alibaba, a Chinese online sales company, is now larger than Amazon and eBay combined, and still growing (Osawa et al, 2014).

This growth is taking place against a backdrop of a global economy that is becoming increasingly integrated. Advances in technology have made communication and transportation faster

Chart 3: Average years of formal schooling



Data Source: IIASA and VID, 2008.

and cheaper, disrupting some established patterns of trade and business activity while also creating new opportunities. Falling transport costs are facilitating the movement of people and goods. For example, air transport costs have fallen around 90 per cent since the 1950s, while global tourist arrivals have grown from 25 million in 1950 to more than 1 billion in 2013 (World Trade Organization, 2008; United Nations World Tourism Organisation, 2014). Improvements in communication technology have also made it possible to share information and bring specialist skills to bear at a distance, allowing services to be internationally traded where once these were available only locally (Elms & Low, 2013). For example, improved telecommunications has created a new market for remote medical and telehealth services, such as the delivery of clinical services through videoconferencing and remote monitoring of health conditions.

Advances in technology have also made it possible to coordinate complex production processes across borders (Elms & Low, 2013). This has facilitated the emergence and expansion of sophisticated global value chains. Globally integrated companies source intermediate inputs from many suppliers, across industries and geographic locations, for assembly and distribution worldwide. This is enabling local producers to specialise in one element of a larger production process and network, which might otherwise not have been viable in their own country or region.

The global economy is also becoming more integrated as governments negotiate free trade agreements and unilaterally reduce trade and investment barriers. Effective tariffs in OECD economies have halved in the past 30 years, falling from around 4 per cent in 1988 to below 2 per cent today (World Bank, 2014b). Effective tariffs in developing countries in East Asia and the Pacific have fallen more markedly, from around 14 per cent in 1995 to around 4 per cent today (World Bank, 2014b). Barriers to foreign investment and skilled labour have also been reduced, allowing these to move to where the commercial returns and wages are highest.

The changing global economic landscape presents Australian businesses with some great opportunities. Seven of our top 10 export markets are now in Asia, and by 2050 over half of the world's output will be from our region (ABS, 2014h; Asian Development Bank, 2011). Australian businesses will also have increasing opportunities to sell to more distant markets, participate in global value chains and access imported business inputs, skilled labour and investor capital. Large businesses will have more opportunities to scale up for a world market and small businesses will be able to find niche markets for their products overseas.

Equally, our businesses will face important challenges. Our proximity alone will not give us a competitive edge. Beijing is closer to Berlin than it is to Brisbane, and the benefits of new technology are not ours alone. Moreover, the increasing rate of technical change is heightening pressures on local firms to innovate to keep pace. The emergence of global technology-based giants like Google, and the different models of business they bring, will increasingly challenge more traditional modes of commerce in many fields. This means Australia will need to compete hard for sales of goods and services exports, for skilled labour, for investor capital and for a place in the world's global value chains. This will require a flexible economy that can absorb declines in some sectors and quickly expand into others as opportunities emerge.

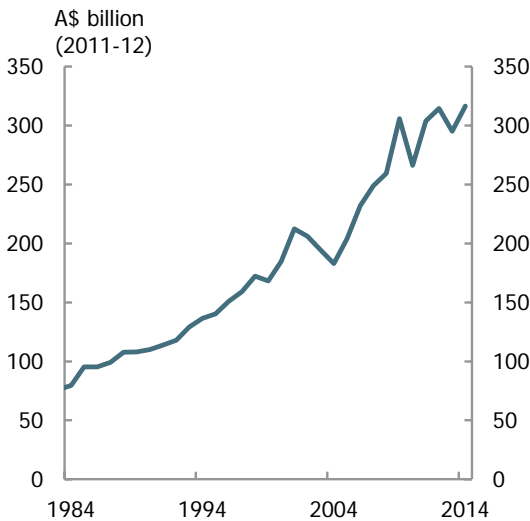
### Producing a niche input to be part of global supply chains

Ferra, a Brisbane-based company, specialises in the design, manufacture, assembly, and testing of aerospace structures and sub-systems. Its customers include Lockheed Martin, Airbus, Boeing, BAE Systems, GE Aviation and Thales. Ferra has recently signed a number of long-term agreements to supply JDAM ER Wing Kits, P-8, CH-47, F-18, 767 and 747-series components, as well as contracts to produce Weapon Pylons and Mission Kits for the MH-60R Romeo helicopter and weapon adapters for the F-35 Joint Strike Fighter project. The company has also diversified into medical devices and the renewable energy sector, and successfully worked its way into global supply chains.

**Australia has succeeded by playing to our strengths and through economic reform**

During Australia’s 23 years of uninterrupted economic growth, we have seldom been outside the top dozen countries globally in per capita GDP (The Conference Board, 2014). The value of our exports has increased four-fold over the past 30 years: exports are now worth one dollar in every five of national income (Chart 4). Foreign investment in Australia has increased five-fold over the past 25 years, and there has also been strong growth in Australian investment overseas (Chart 5).

Chart 4: Australian exports



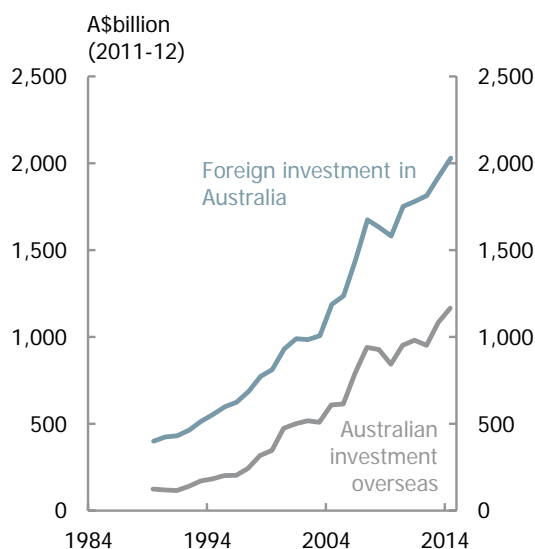
Note: Deflated by Consumer Price Index  
Data Sources: ABS, 2014b; 2014e.

Access to international capital, skilled workers, and goods and services, has been critical to the growth and development of Australia’s economy. Many of the massive scale projects that have underpinned the resources investment boom, like the US\$18.5 billion Gladstone Liquefied Natural Gas (LNG) project in Queensland, have depended on international capital, expertise and materials (Santos, 2014). Imports and the inflow of foreign investment and skilled migrants have not only helped to physically build our economy, they have also brought new technology and human know-how; better, cheaper and more varied goods and services; and increased our international

people-to-people connectedness. This has improved the operation and products of our exporters and domestically focused businesses alike.

Australia’s success in harnessing global opportunities has in part been due to our great national strengths. Australia’s institutions are strong, open and well respected internationally. While we always strive to do better, our education system was ranked in the global top 15 in 2014 (Economist Intelligence Unit, 2014). We speak the language of business – English – but our citizens are also increasingly internationally connected, with more than 2 million Australians who speak an Asian language at home and more than 1 million who speak a European language (Austrade, 2014). Australia has the world’s largest reserves of gold, iron ore, lead, nickel, uranium and zinc (Geoscience Australia, 2014). Australia’s temperate climate, natural beauty and quality of life are world beating, making us 11th in the world for tourism revenue notwithstanding our distance from major source countries (United Nations World Tourism Organisation, 2014). Australia

Chart 5: Overseas investment



Note: Deflated by Consumer Price Index

Data Sources: ABS, 2014d; ABS, 2014e.

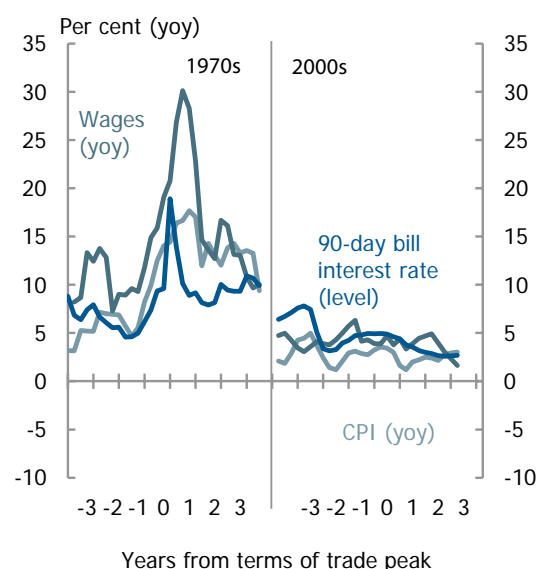
also has an abundance of agricultural land spanning tropical, sub tropical and temperate farming zones, the ability to supply northern hemisphere markets during their off season and a reputation for high quality, safe food products.

Australia's success also stems from our proud history of making the hard decisions to reform our economy. In the early 1970s, the Australian economy was volatile, insular and inflexible. Today, thanks to the hard won reforms of the decades that followed, Australia's economy is more stable, open and flexible. Australia floated the dollar, introduced independent monetary policy, deregulated the financial and wage-setting systems and reduced tariff and non-tariff

trade barriers. Former governments increased competition through the National Competition Policy, privatised public assets like Telstra and the Commonwealth Bank, and reformed the tax base through cutting company and personal tax rates and introducing the Goods and Services Tax. These reforms enabled Australia to seize opportunities as they arose.

The triumph of Australia's resources sector is a testament to the benefits of the economic reforms of the past. The expansion of the sector is well known, although the scale is sometimes not appreciated. In the decade to 2012-13, non-rural commodity prices rose around 120 per cent, resources investment surged from \$18 billion to \$113 billion, the resources sector workforce trebled to over 260,000 people and export volumes increased by more than half (ABS, 2014b; 2014d; 2014e; 2014j; RBA, 2014a). This expansion created stresses within the economy, particularly in trade-exposed sectors, through its effects on domestic costs and the exchange rate. However, other sectors benefited from the boom. Parts

Chart 6: Terms of trade booms and inflation



Data Sources: ABS, 2014c; RBA, 2014b; RBA, 2014c.

of the business services, construction, and manufacturing sectors shifted to take advantage of the resources boom, so now the resources and resource-related sectors comprise around 18 per cent of total economic activity (Rayner & Bishop, 2013). This expansion could not have occurred as successfully without the economic reforms that gave Australia the necessary flexibility to relocate capital and labour, including from offshore, into the resources sector.

Economic reforms of the past allowed the economy to smoothly absorb the resources boom. The combination of a floating exchange rate, flexible capital and product markets and independent monetary policy stopped the economy from overheating. This contrasts sharply with the last terms of trade boom in the 1970s. Although only around one third of the size, the 1970s boom was associated with a surge in inflation, interest rates and nominal wages (Chart 6). There were other factors at play such as the world oil shock, but the economy's inflexibility exacerbated an already difficult situation.

### **Many industries have bright prospects**

With the resources investment boom now fading, Australia will need to look to new sources of growth and jobs in coming years.

The future is inherently uncertain, but Australia's strengths today and the trends in global demand and supply provide a window to where some of the jobs and industries of the future may lie. A number of private sector economists have identified industry sub sectors with growth potential. While the growth estimates differ in the details, some subsectors feature frequently (Table 1). Australia's clearest industry prospects are linked to our natural resources and climate. Others relate to our strengths in innovation, research and development, for example, pharmaceutical development (see Box A1).

Although the services sector is often overlooked, the sector will be a particularly important source of jobs in the future. Services have already grown to be the mainstay of the economy, contributing over 70 per cent of output and accounting for more than three quarters of total employment (ABS, 2014b; 2014j). While typically associated with the retail trades, the services sector includes several high wage and high skill industries ranging from accounting, engineering and programming to surveying, marketing and the medical specialities. Further growth in services is expected to meet future domestic demand, especially in smaller sectors that show potential like health and aged care services.

Australian services exports also make an important contribution to Australia's economy. Australia exported around \$58 billion worth of services in 2013-14, accounting for around 17 per cent of total exports and 4 per cent of GDP. The main services exports are education and tourism, with a variety of business service exports also significant and growing strongly (ABS, 2014d; 2014b). Our main markets have long been the



United States, Japan and the United Kingdom, but China has rapidly grown in importance and is now Australia's largest services export market, accounting for around 13 per cent of total services exports in 2012-13 (Department of Foreign Affairs and Trade, 2014; Treasury, 2006). Further growth in services exports can be expected.

Of course, many sectors of the future cannot be predicted today. Few people two decades ago would have foreseen the explosion of the online business sector (or the accompanying changes and disruptions to existing business models brought by the internet). Nor could many have confidently foretold the extent of China's spectacular recent growth and its soaring demand for minerals and energy. Further economic change and disruption can be expected, but its exact effects on business opportunities and the profitability of different sectors cannot be predicted. Not all areas of apparent strength and good prospects today will necessarily remain so in the future. Equally, changing conditions and new discoveries may offer substantial, new prospects.

Table 1: Some future growth sectors

	Deloitte <sup>(a)</sup>	PwC <sup>(b)</sup>	IBIS World <sup>(c)</sup>	Outlook Economics <sup>(d)</sup>	McKinsey <sup>(e)</sup>
<b>Gas</b>	✓	✓	✓	✓	✓
<b>Food &amp; beverage processing</b>	✓		✓		✓
<b>Pharmaceuticals, biotech &amp; medical</b>		✓			✓
<b>Agriculture</b>	✓	✓			✓
<b>International education</b>	✓		✓	✓	✓
<b>Tourism</b>	✓	✓		✓	✓
<b>Mining services</b>		✓		✓	✓
<b>Professional &amp; financial services</b>	✓	✓	✓	✓	
<b>Distribution services</b>	✓	✓			

- (a) Deloitte (2014), *Positioning for prosperity: catching the next wave*. In professional & financial services Deloitte identified wealth management as a growth subsector.
- (b) PwC (2013, unpublished), *Industry Sectors: Analysis and forecasting*. In analysis of nominated sectors, to support an industry innovation programme, PwC also identified Digital; Transport; Space & spatial; and Built environment & construction as having strong growth paths.
- (c) IBIS World (2013), *Australia's Top 5 New Exports*. Within the professional and financial services category IBIS identified legal services as a key growth subsector.
- (d) Outlook Economics (2014, unpublished), *AUS-M*. Distribution services includes wholesale and retail trade, transport, and postal and warehousing. Some subsectors are based on broader categories in the model.
- (e) McKinsey Australia (2014), *Compete to Prosper: How Australia can gain a global edge*. Based on sectors identified as advantaged performers and latent potentials.

This highlights the need for a nimble economy, with workers and businesses equipped with the skills and incentives to adapt to changing economic conditions, and to seize new opportunities wherever and whenever they emerge. While much will be expected of our largest and most successful companies, small businesses also have a vital role to play. They already employ around 40 per cent of the private sector's workforce and generate around a third of its output (ABS, 2014a). They are at the heart of the creativity that our economy will need in the future. Much will also be required of our workforce, to bring the skills and generate the ideas needed for businesses to succeed and for jobs and incomes to grow. Australia will particularly need people with a firm grounding in science, technology, engineering or maths if we are to compete in several emerging fields. More generally, in an increasingly changing, globalised economy, it will be critical that all businesses, small and large, have the people and skills to innovate, the networks to remain competitive in domestic markets, and the know-how to identify opportunities in global markets.

#### Using technology to improve services

AutumnCare is a Perth based company that applies technology innovatively to improve the management of aged care. The company's electronic systems have modernised paper-based systems, allowing care and clinical staff to monitor and report on patient care with real time updates. They also provide access to flexible clinical management solutions, making patient care more precise, streamlined and efficient. The systems also eliminate the need for multiple data entry and many of the errors present in manual systems.

AutumnCare systems are used by some of Australia's largest aged care providers. The company has grown steadily and now employs 22 people in Perth and Melbourne.

As the population ages, there will be more opportunities for innovative approaches to aged care. With a solid Australian customer base, AutumnCare has plans in train to take its innovative solutions to the international market.

## Box A1: Industries with promise

### 1. Gas to drive growth in the resources sector

The biggest growth driver in resources over the next decade is expected to be in LNG. World demand for gas is expected to increase by around 50 per cent by 2035, largely led by Asia (BREE, 2013). Around \$200 billion is being invested in Australian LNG projects, which will see Australia rival Qatar as the world's leading LNG exporter (Australian Petroleum Production & Exploration Association, 2014; BREE, 2013). By 2017-18, LNG exports are expected to have risen to over \$55 billion per year from around \$16 billion today (BREE, 2014).

### 2. Mining services continues to expand

Firms that provide equipment, technology and services to the resources industry account for \$15 billion of exports each year (Austmine, 2013). Continued growth is expected as ongoing urbanisation in Asia will require greater investment in infrastructure and so demand will increase for our resources. As the depth of ore deposits increases and the grade of ore decreases, the demand for mining technology and services will continue to increase.

#### Our mining advantage is not just about resources in the ground

GroundProbe is a Queensland company with its origins in university research. Its slope stability radar system, manufactured in Brisbane, is designed to send a warning before pit walls collapse, often many days in advance. It is deployed in mines in over 20 countries, and has saved the lives of hundreds of miners and prevented damage to millions of dollars' worth of mining equipment. The company now has 175 staff in seven offices around the world.

Mining companies have also turned to the innovative solutions of VR Space Pty Ltd to help safely plan, control, operate and monitor complex and hazardous working environments. The company specialises in simulation and visualisation technology, which allows miners to gain valuable insight and experience in the mines they work in. As a result of its research and development programme, VR Space has expanded the uses of its real-time interactive graphics



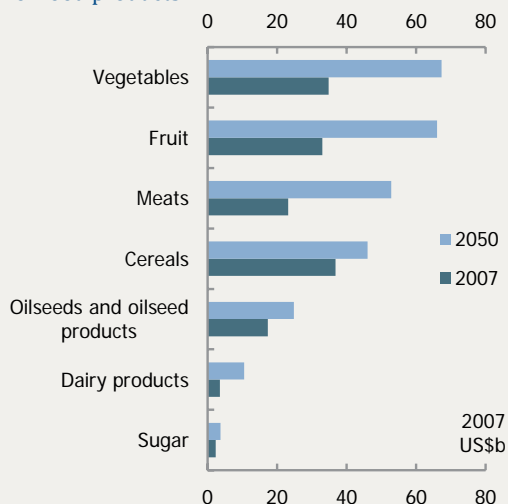
applications beyond safety and emergency response training to also cover production optimisation and risk assessments. VR Space has recently signed a three year partnership agreement with Simtars, a

division of the Queensland Department of Natural Resources and Mining, to develop mine safety training solutions.

### 3. Agriculture to meet increased demand for high quality food

The United Nations expects world food demand to increase by 70 per cent by 2050 (United Nations Food and Agriculture Organization, 2009). As incomes rise, particularly in Asia, so will demand for food products like fruit and vegetables, dairy products, meats, cereals and fish (Chart 7). Australia is already in a strong competitive position as we are relatively free from many serious agricultural pests and diseases, and our world-leading agricultural research and development adds to productivity in the sector. We export almost two thirds of our farm output, with these exports valued at almost

Chart 7: Projected demand of ASEAN countries for food products



Source: ABARES, 2013.

\$38 billion in 2013 and our total agricultural exports to China have more than doubled since 2002-03 (Commonwealth of Australia, 2014a). In 2050, the real value of Australia's agrifood exports is projected to be 140 per cent higher than in 2007 (Linehan et al, 2012).

### 4. Food processing to leverage off Australia's reputation for high quality produce

The food and beverage processing sector accounts for around a quarter of manufacturing activity and employment, with food processing exports currently around \$19 billion per annum (ABS, 2014b; 2014h; 2014j). Continued growth is expected as Asia's middle class grows.

### 5. International education to grow

The international education and training sector is a major export industry with exports of approximately \$16 billion in 2013 (ABS, 2014h). The United Nations Organisation for Education, Science and Culture predicts that tertiary students studying abroad will more than double globally from 2.5 million to as many as 8 million in 2020 (Altbach et al, 2009). This underpins forecasts for education exports to contribute more than \$19 billion to our economy by 2020, particularly through students from China and India (International Education Advisory Council, 2013).

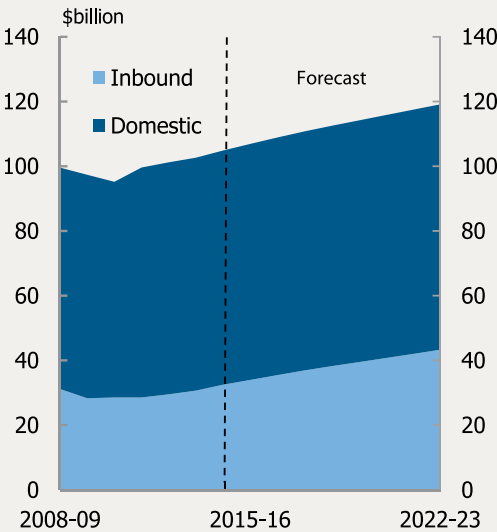
### 6. Innovative pharmaceuticals, biotechnology and medical devices manufacturing to leverage off Australia's strength in research

The innovative pharmaceuticals, biotechnology and medical devices sector is one of Australia's strongest prospects in manufacturing. Exports of pharmaceuticals and medical devices alone are worth around \$4 billion per annum (ABS, 2014d). Continued growth is expected, particularly as populations age and Asia's middle class grows. Research and development expenditure by this sector is substantial, supported by our strong intellectual property environment and educated workforce (ABS, 2013b).

### 7. Tourism for the world's growing middle classes

Australia ranks 11th in the world for tourism revenue, with around 6 million international visitors arriving here in 2013, and spending some \$28 billion (Tourism Research Australia, 2014; United Nations World Tourism Organisation, 2014). Prospects for further growth appear strong, with global visitor numbers projected to double over the next two decades on the back of strong growth in travel from China and other Asian countries (United Nations World Tourism Organisation, 2011). The growth potential of this 'visitor economy' is further strengthened by increasing domestic tourism as reflected in Chart 8.

Chart 8: Tourism Expenditure Projections



Source: Tourism Research Australia, 2013.

### 8. Financial and professional services

Australia's banking, insurance and managed funds sectors are open, stable, efficient and well regulated. The financial and insurance services sector employs more than 400,000 people, and currently has more than \$2 trillion of funds under management (ABS, 2014j; 2014k). Exports of insurance and superannuation services have grown by an average of 10 per cent per annum since 2008 (ABS, 2014h). Deloitte (2014) indicated that as the world gets older and wealth in our region continues to grow, wealth management services will remain in high demand. Reflecting the highly skilled, innovative nature of the Australian economy, professional, scientific and technical industries accounted for more than 7 per cent of value add in 2011-12 (Australian Workforce and Productivity Agency, 2013). Technology and communication will continue to facilitate the provision of legal, accounting, engineering and other services across borders.

## To compete with the best in the world, Australia must do more

Australia's natural strengths and past economic reforms do not guarantee prosperity in the future. While opportunities will grow over time, so too will competitive pressure. Australia's natural resources gave us a particular advantage in the early stages of Asia's development. In the next wave, there will be many other suppliers of the goods and services that Asia will demand. This competitive pressure has already been felt for some years in Australia, particularly by manufacturing sectors and the regions that support them. Australia will need to continue to reform and to compete hard for sales of goods and services, as well as for skilled labour, for investor capital and for a place in the world's supply chains.

International institutions such as the International Monetary Fund (IMF), the OECD, the G20 and the World Economic Forum (WEF) have identified a range of policy settings that typically support and sustain competitiveness, productivity and economic growth (see Box A2).

### Box A2: Policy settings for competitiveness, productivity and growth

- **Macroeconomic stability** through strong public finances, independent monetary policy aimed at low and stable inflation, a floating exchange rate, and honest institutions.
- **A well-developed financial system** founded on sound prudential regulation that efficiently manages risk and channels savings to the highest return investments.
- **Stable, broadly based and efficient taxes** that raise revenue while minimising market distortions and compliance costs.
- **Open trade and investment policies** that provide access to international markets, expose domestic businesses to international competition and spread new technologies and practices.
- **Education, training and labour market arrangements** that provide a highly skilled and adaptable workforce with capabilities in line with business needs, minimise barriers to employment and re-deployment, and keep unemployment levels low.
- **Access to public and private infrastructure** that facilitates the movement of people and goods, and enables efficient communications and competitive energy costs.
- **Risk-based regulation making and enforcement systems** that target market failures and support relevant social, environmental or economic protections at the lowest cost.

Many of our competitors have recognised the global opportunities and challenges and are acting to bring their economies into line with international best practice. Advanced economies are reining-in inefficient government spending, reducing corporate tax rates, deregulating and improving competition, making investments in infrastructure and skilled workforces, and giving research a greater commercial focus. Singapore has cut the corporate tax rate many times, from 40 per cent 28 years ago to 17 per cent now (Prime, 2012; Inland Revenue Authority of Singapore, 2014). Singapore also offers a special visa class for foreign entrepreneurs who wish to relocate to start an innovative and employment-generating business. The United Kingdom has cut public sector net borrowing by a third between 2009-10 and 2012-13 and is forecast to have reduced it by half by 2014-15. At the same time, the UK has reduced its corporate tax rate from 28 per cent in 2010 to 23 per cent in 2013, and will be reducing it further to 20 per cent by April 2015 (HM Treasury, 2014; 2013). Canada is promoting competition in the telecommunications sector, including by capping wholesale domestic roaming rates to prevent wireless providers from charging other companies more than they charge their own customers (Government of Canada, 2014). In February, Korea announced its Three-Year Plan for Economic Innovation, which includes a range of deregulation reforms. Regulations will be required to specify expiration dates, with sunset clauses to be applied to 50 per cent of all regulations before the end of 2017 (OECD, 2014c).

Australia has many of the fundamentals required for a productive and competitive economy. The OECD ranks Australia around the average of its member nations on most aspects of government policy and we rate well on dimensions such as macroeconomic and financial sector policies, income and wealth, jobs and earnings, and education and skills. For example, Australia is ranked 4th in the OECD for average household disposable income, 5th for per capita GDP and has the 7th highest employment rate (OECD, 2014a; 2014d). Australia also ranks relatively well on the global indexes of competitiveness compiled by the World Economic Forum and the International Institute of Management Development (IMD).

Despite this, our competitiveness has been slipping in recent years. Compared to the productivity boom that commenced in the mid-1990s, when multifactor productivity growth averaged more than 2 per cent a year, productivity has stalled since 2003 and actually fell last year, giving Australia the worst performance of the 15 countries compared recently by the Productivity Commission (Productivity Commission, 2013c; 2014c). Australia's growth in wages and energy costs and a higher exchange rate not offset by productivity in recent years contributed to Boston Consulting Group (2014) ranking Australia last out of 25 countries when it came to manufacturing cost competitiveness. Our costs are some 30 per cent higher than those in the United States. Moreover, Australia fell seven places to 22nd of 144 countries on the WEF competitiveness index in the five years to 2014. Of particular concern is that, over this period, Australia slipped 29 places in terms of wastefulness

of government spending, 58 places in terms of the burden of government regulation, and 92 places in terms of our pay and productivity (World Economic Forum, 2010; 2011; 2012; 2013; 2014a). The most recent WEF competitiveness study (2014b) pointed to restrictive labour regulations, inefficient government bureaucracy, tax rates and regulations, and inadequate supply of infrastructure as among the key problems for Australian competitiveness. The IMD index reveals an even larger decline than in the WEF study, with Australia falling from 5th to 17th (of the 60 countries ranked) over the four years to 2014.

Although movements in these high-level indicators need to be interpreted carefully, there is little doubt Australia is missing opportunities and can do better across a range of areas.

- **Less debt** – Australia’s public finances have deteriorated markedly as governments around Australia spent around \$270 billion they did not have in the five years to 2012-13. Australia’s public sector collectively shifted from being a net creditor to a net debtor owing 12 per cent of GDP in 2012-13. It is now projected that government debt will increase to over 18 per cent of GDP by 2016-17 (Commonwealth of Australia, 2014b). In some cases this debt financed critical infrastructure, like upgrades to the Pacific Highway in NSW. However, in the main, governments consumed rather than invested in capital.
- **Lower taxes** – some of our taxes put Australian businesses at a competitive disadvantage. For example, Australia’s corporate tax rate is nearly 10 percentage points higher than the average in Asia (KPMG, 2014), and five percentage points higher than the OECD average (OECD, 2014e).
- **Stronger market sector jobs growth** – despite increases in jobs in the resources and related sectors, employment outside the public related sectors of the economy has been weak (Box A3).
- **Profiting from ideas** – while Australia has a world-class university sector, relatively little of our considerable research output translates into patents or commercial success. Studies have suggested Australia has poor connections between research and industry and a weak early-stage venture capital market (OECD, 2013). Australia was recently ranked 81st out of the 143 countries for the efficiency with which it turns its innovation inputs into outputs (Cornell University et al, 2014).
- **Reducing regulation** – although Australia has abundant mineral resources and many willing overseas buyers, delays in approval processes (Productivity Commission, 2013b) and other imposts on Australian enterprises work against these advantages. For example, in its ‘Opportunity at Risk’ report, the Minerals Council of Australia (2012) noted that in Australia it takes around three years to get approval for a thermal coal project compared to around two years for the rest of the world.
- **Lowering compliance costs** – regulatory compliance costs also remain a major concern for Australian businesses. Almost 60 per cent of businesses in the Australian Chamber of Commerce and Industry National Red Tape Survey (2014) reported annual direct costs of more than \$5,000. Small businesses, in particular, face compliance costs which are disproportionate to their size.

- **Better management practices** – when business management practices are compared with those in other countries, Australia ranks well below the best performers such as the United States, Germany and Sweden (Green, 2009).

If not addressed, such constraints on our competitiveness will become an ever greater drag on Australia as global competition increases, and will hamper our ability to tackle the major domestic challenges we will face over the coming decades.

### Box A3: Weak private employment

Australia's employment growth has been weak since the global financial crisis, particularly in the private sector. Nationally, employment growth has averaged just 1.4 per cent over the past six years, around three fifths of the rate of the previous 10 years. Jobs in the 'market' sector of the economy, on which long term economic growth and government revenues depend, have grown even more slowly, averaging just 0.9 per cent annually (Chart 9). For manufacturing and agriculture, employment has actually fallen (ABS, 2014j).

**Chart 9: Job creation in market and non market industries since the global financial crisis**



\* 'Non-market' comprises Public Administration and Safety, Education and Training, and Health Care and Social Assistance. This definition is consistent with that used for the Australian Bureau of Statistics productivity statistics.  
Data Source: ABS, 2014j.

Over half of the jobs created have been in public administration and safety, health care and social assistance, and education and training (ABS, 2014j), which although often provided by the private providers are typically directly or indirectly funded by government. These 'non-market' sectors provide many important services and their growth is, in part, a response to community needs. However, given their reliance on public funding, it is imperative that growth be sustainable, not driven by rising debt and taxes.

## The Government is taking a comprehensive approach to economic reform

The Government's Economic Action Strategy is about strengthening the economy and delivering benefits to the community, including through less reliance on government, freeing up business and more long-term investment. To this end, the Government is pursuing world's best practice for competitiveness, productivity and growth, with reform on several fronts.

- To support macroeconomic stability, the Government is repairing public finances and has injected \$8.8 billion in additional funds into the Reserve Bank of Australia.
- To support our financial system, the Government commissioned an independent, comprehensive inquiry to examine whether policies are fostering an efficient, competitive and flexible financial system, consistent with stability, prudence and public confidence.
- To support open trade and investment, the Government recently concluded negotiations of trade agreements with both Japan and South Korea – it is estimated the Korea Australia Free Trade Agreement alone will add \$650 million to the Australian economy every year from 2030 (Centre for International Economics, 2014).
- To encourage greater quality and lower prices for the goods and services that businesses and consumers depend on, the Government established a review of competition policy to increase domestic and international competition.
- To improve our education and training systems, the Government is expanding the demand-driven higher education system to all sub-bachelor courses and is deregulating fees from 2016. The Government is also establishing Trade Support Loans to help increase completion rates among Australian apprentices in priority occupations, and a \$476 million Industry Skills Fund to provide training and support services to small and medium enterprises.
- To improve our workplace relations system, the Government is amending the *Fair Work Act 2009* and will re-establish the Australian Building and Construction Commission.
- To improve infrastructure, the Government is delivering an \$11.6 billion Infrastructure Growth Package, including \$5 billion for States and Territories that privatise State owned assets and reinvest the sale proceeds in new infrastructure. The Productivity Commission's Inquiry into Public Infrastructure has examined how best to fund infrastructure in Australia.
- To improve the tax system, the Government has repealed the Carbon Tax and the Minerals Resource Rent Tax, and is dropping or amending 58 announced, but not enacted, tax and superannuation measures inherited from previous governments.
- To reduce regulation, the Government is cutting red tape by \$1 billion per year. The Government announced annual red tape savings in excess of \$700 million, including as part of its first Repeal Day. It is also working with the States and Territories to establish a one-stop shop for environmental approvals.

While the Economic Action Strategy is wide-ranging, the Government is taking a steady and purposeful approach to get reform right, commissioning a number of other significant reviews

including on Energy, Taxation, Agricultural Competitiveness, northern Australia and Reform of the Federation.

The Competitiveness Agenda is a further plank in the Strategy. It brings together and builds on the Government's economic reform efforts to date, with a range of new policies and proposals specifically targeted at lifting Australia's competitiveness (see Part B). Further reforms to lift competitiveness will also be developed over the longer term, drawing on further consultation with business and lessons from the implementation of our initial reforms.

The Agenda will support and reinforce Australia's G20 growth strategy and is consistent with the B20 international business recommendations to G20 governments. The world's major economies have committed to undertake ambitious reforms with the goal of lifting collective G20 GDP by more than 2 per cent above the current trajectory over five years. G20 member countries' growth strategies will be announced at the G20 Leaders' meeting in Brisbane in November 2014 and will focus on reforms in investment and infrastructure, trade, competition, employment and participation. As G20 president, we will show leadership in presenting a new wave of economic reforms.

Standing still on economic reform is not an option for Australia. While not yet a crisis, if left unaddressed our slipping competitiveness represents the start of an unacceptable slide into mediocrity. Improving our competitiveness is essential if we are to sustain our economic performance and living standards.



Part B

THE REFORM AGENDA

# The Reform Agenda

The Government's Industry Innovation and Competitiveness Agenda will foster stronger and more enduring economic growth.

At the heart of the Agenda is the need to invigorate Australian businesses: large and small; international, national, regional and local; exporters and domestic suppliers; in resources, services, manufacturing and agriculture. Strong businesses, free to play to our country's strengths, will create the jobs and the prosperity needed for strong communities, to maintain Australia's high standard of living and to provide the capacity to address genuine social and environmental goals.

To achieve this, we must also promote a culture of entrepreneurialism and responsible risk taking by business. Entrepreneurial businesses are important early adopters of innovative ideas and processes, often pioneering new technologies or work practices before they spread more broadly through the economy. The competition that this elicits challenges incumbent firms to do better. Entrepreneurs are important in building a dynamic and innovative economy. However, entrepreneurs are less likely to pursue opportunities when policy settings discourage appropriate risk taking behaviour. This is why the Government is laying the groundwork for Australian businesses to embrace structural economic changes, innovate and build their competitive advantages.

In furthering this vision, the Agenda's solution is not more government, it is less. This is not about weakening government, which has an important role to foster an economic environment where productive, self-reliant enterprises can flourish. Government also has a role to address gaps and deficiencies in markets where they lead to significant social, environmental and economic problems. But, in recent years, government has overreached this role, spending too much, regulating too much and borrowing too much. This has interfered unnecessarily with the decisions and freedoms of businesses and individuals. While it is critical that policy settings are conducive to business investment and growth, it is businesses — not politicians or bureaucrats — that are best placed to assess commercial prospects and risks and to decide whether, and in which areas, to invest their capital. Government subsidies and other policies that have distorted these decisions, without addressing significant market problems, have undermined Australia's productivity and competitiveness.

The Government intends to scale back intervention in the economy to restore the balance. Lower government spending will allow taxation to be sustainably reduced over time. Ceasing activity which is best done by private businesses and individuals will improve productivity. Ensuring that States and Territories are, as far as possible, sovereign in their own spheres will reduce duplication, overlap and coordination problems. Less government activity will reduce

competition with private businesses for labour, land and capital. Finally, less government regulation will reduce business compliance costs and allow businesses the flexibility they need to adapt to the rapidly changing economic environment.

Reducing government overreach in these ways, while necessary, will not be easy. It requires tough choices about priorities. But if done well, the potential benefits are large.

A very first step in the Government's Economic Action Strategy has been the immediate and urgent task of getting the Budget back under control. We need to restore business and investor confidence that the Government will live within its means without debt and taxes spiralling. To this end, in the 2014-15 Budget the Government took a number of tough but warranted decisions to reduce the deficit. The Government aims to bring its expenditure under control so that net debt can begin to be reduced for the first time since 2007-08.

The Competitiveness Agenda is a further step. It provides a framework for boosting Australian industries' competitiveness and driving greater innovation and investment across the nation. It brings together and builds on the Government's dedicated reform streams in taxation, competition, deregulation, energy, infrastructure and the Federation. It is a comprehensive and positive reform agenda. The Government will work closely with the States and Territories, and with business, to develop, drive and implement the necessary reforms at all levels of government.

Through the Competitiveness Agenda, the Government aims to achieve four overarching ambitions:

1. a lower cost, business friendly environment with less regulation, lower taxes and more competitive markets;
2. a more skilled labour force;
3. better economic infrastructure; and
4. industry policy that fosters innovation and entrepreneurship.

In developing reforms to promote these ambitions, the Government has drawn on advice from the Prime Minister's Business Advisory Council and studies prepared by business groups (Box B1); departmental reviews and consultations with businesses and the community; and research and advice from bodies such as the OECD, the World Economic Forum and the Productivity Commission.

## Box B1: Building Australia's Comparative Advantages

### — Business Council of Australia

In July 2014, the Business Council of Australia (BCA) released a major study on Australia's competitiveness and policies to ensure our economic security into the future. The study, *Building Australia's Comparative Advantages*, makes an important contribution to the policy debate in Australia.

The Government concurs with the BCA's assessment that continued complacency will slow down or reverse the growth in living standards that Australians have enjoyed over recent decades, and that we need to shift our mindset and focus to lifting the country's competitiveness if we are to create the jobs of tomorrow, continue to prosper and be able to meet emerging social needs.

We also agree that there are important roles for government in driving growth, including in areas such as enabling trade and investment, fostering innovation and entrepreneurship, facilitating the development of skills and capabilities in our people and businesses, reducing red tape and other business burdens, and developing physical infrastructure. Broadly-based reforms in these areas are at the heart of the Competitiveness Agenda.

The BCA report also advocates a sectoral approach to industry policy, involving sectoral plans and growth targets developed by industry in partnership with government, coupled with policy initiatives prioritised to focus on our comparative advantages. The Government agrees that a sectoral focus is important for priority setting. For example, in negotiating bilateral trade agreements or determining research priorities, governments inevitably favour some sectors over others. In doing so, the Government's guiding principle is to focus on our strengths; not to prop up poor performers. Government can also play a facilitation role at the sectoral level by, for example, linking small food manufacturers with relevant researchers. The Industry Growth Centres that will be established (see Ambition 4, below) will be tasked with this role.

Like the BCA, the Government does not see a role for subsidies and direct intervention in industries to 'pick winners'. Even where governments successfully identify a winning industry, government assistance to these industries still risks 'crowding out' other productive industries, as the exchange rate and other economic variables adjust. More problematically, the experience in Australia and elsewhere is that too often governments have supported and then entrenched many industries that have proved to be uncompetitive, in the process creating an entitlement culture, long-term dependence, lower productivity, and a drain on taxpayers, consumers and other businesses.

More generally, while there is a case for government to facilitate business coordination and prioritise reforms on a sectoral basis, there are clear limits to the scope for sectoral policies to lift an economy's overall competitiveness. It is businesses themselves that are best placed to assess commercial prospects and risks, to foresee and take advantage of changing market conditions, and to decide which areas and opportunities are likely to offer the highest returns on investment. In a market economy, which sectors prosper, and the extent to which they grow, will ultimately depend on myriad decisions of business; it should not (and cannot) be prescribed in advance by governments, either on their own or with industry representatives.

The BCA report sets out an ambitious reform agenda, much of which aligns with the Government's approach. The Government is working steadily and purposefully to implement reform and will also continue to engage with the broader community to ensure that we are on the right path and to build further support for reform.

### **Box B2: Strengthening entrepreneurship and small business**

The Government is committed to encouraging entrepreneurship and creating the best possible conditions for small and large businesses to thrive. The Government's vision is that, alongside successful large Australian businesses, Australian small businesses will be innovation leaders, contributing strongly to national economic growth and competitiveness.

There are over 2 million Australian small businesses (Department of Industry, Innovation, Science, Research and Tertiary Education, 2012). Many are single person businesses and there are also over 750,000 businesses employing one to 19 people (ABS, 2014f). Small businesses have the advantage of being adaptable and flexible, able to exploit niche markets, develop and embrace new technologies or work practices, and respond profitably to economic changes. Indeed, small businesses are ideal test beds for driving innovative ideas and processes, and often pioneer these before they spread more broadly through the economy. This is why small business entrepreneurs are important to future economic growth, improved job prospects and better living standards.

Getting the economic conditions right to encourage small business to grow, innovate and develop will yield wide benefits. Small businesses that innovate are more likely to increase their profitability, productivity, employment and export penetration (ABS, 2014l; Palangkaraya et al, 2014).

Growth and innovation does not simply occur by chance. The knowledge and experience of a founder and his or her staff, particularly their management competency and technological proficiency, affects the growth of the firm. International studies identify greater variability in management performance among Australian firms than those overseas, with a long tail of poor performers (Bloom & Van Reenen, 2010).

Strengthening management capabilities will enhance the capacity for small businesses to compete in a digitalised, global economy. It will help entrepreneurs reinvent and evolve their businesses as technologies change and the economy restructures.

The Government is committed to fostering an innovative culture among small businesses and improving the business operating environment, including by reducing red tape and increasing the quality and effectiveness of government engagement with small business.

The Competitiveness Agenda will improve the opportunities for all businesses. Small businesses will gain proportionally greater benefits as they are particularly vulnerable to the deadening effects of excessive red tape and other impediments to entrepreneurship.

Some initiatives in the Competitiveness Agenda have already undergone extensive consultation and development and will only require fine-tuning as they are implemented. For others we will undertake significant further consultation with States, business and the community, to ensure that we are on the best path forward and to prioritise our reform efforts. Our aim is to progressively finalise and announce additional competitiveness initiatives, and to build national support for ongoing competitiveness-focused reform.

Lifting competitiveness will be an ongoing challenge, and further reforms to promote the Agenda's four ambitions will be developed over the longer term, drawing on further consultation with business and lessons from the implementation of our initial reforms. In developing and implementing other key components of the Economic Action Strategy, the Government will be mindful of how these can help improve the competitiveness of Australian businesses. The Government will also evaluate in the future how each measure is achieving its objectives.

The following sections of Part B detail the actions the Government has and is taking to promote the four ambitions of the Competitiveness Agenda. The timeframe for implementing these initiatives is outlined in Part C.

### A LOWER COST, BUSINESS FRIENDLY ENVIRONMENT

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The Government will make it easier and cheaper to do business, particularly for small business, by:

- reducing the burden of regulation;
- reducing the burden of taxation; and
- improving access to high-quality, low-cost inputs to business by opening the economy to greater domestic and international competition.

#### **Reducing the regulatory burden**

Regulation has been allowed to grow unchecked and for too long other policy objectives have taken precedence over Australia's competitiveness. The Government is committed to restoring the balance by reducing inefficient regulation, simplifying compliance arrangements and improving the responsiveness of Australia's regulators.

Regulation is necessary for a well-functioning economy and society, but there are costs that should not be ignored. Regulation, by influencing people's and business's behaviour, can help society function and manage risks. At the same time, regulations impose costs and reduce the flexibility of businesses and individuals to adapt to changing economic conditions.

This regulatory burden has been rising, particularly in recent years. Between 2007 and 2013, around 21,000 new regulations were introduced at the Commonwealth level alone.

This hurts small businesses in particular. Around 60 per cent of Australian businesses are sole traders and 85 per cent have fewer than five employees (Connolly et al, 2012). The need to keep up-to-date with so many regulatory requirements is an additional burden for the local newsagent, drycleaner, baker and butcher, who already have to be the accountant, marketer, HR manager and cleaner for the business as well as the chief salesperson.

This burden has been exacerbated by the interaction of multiple, sometimes overlapping, regulatory regimes across the different levels of government. For example, the operator of a cafe that serves alcohol and provides outdoor dining may need to navigate as many as 71 different licence, permit or registration processes across the three levels of government. This involves interacting with eight different government agencies (Productivity Commission, 2007). Such regulatory excess saps entrepreneurial drive. This problem is not limited to small business; while progress has been made, different work health and safety laws also add to the complexity of operating a multi-jurisdiction business.

International assessments of Australia's regulatory regime also suggest Australia needs to do better. In the 2014-15 WEF Global Competitiveness Index, Australia's burden of government regulation was ranked 124th of 144 countries. The business community surveyed has consistently cited bureaucracy and regulations as significant issues in doing business in Australia (World Economic Forum, 2010; 2011; 2012; 2013; 2014a). In its 2010 review of regulatory reform, the OECD stated that while Australia has been proactive in regulatory reform, it will need to maintain momentum, particularly on harmonising and streamlining regulations (OECD, 2010a).

Businesses have also raised concerns about how Australia's regulatory regime is administered, monitored and enforced. A key concern relates to standards and risk assessments of some highly regarded regulators in other advanced economies not being recognised in Australia. For example, in assessing medical devices, Australia's Therapeutic Goods Administration accepts certification of medical devices by European Union Notified Bodies for the importation and use by Australian medical facilities. However, Australian producers of medical devices that have been similarly certified by European Union regulators must still also seek certification from the Therapeutic Goods Administration. This means that, in the main, our manufacturers face more unpredictable and lengthier timeframes for regulation domestically than their overseas competitors. Another example is that the Australian industrial chemical risk assessment system makes insufficient use of assessments and determinations conducted by highly-regarded overseas regulatory authorities. This means a slow and expensive process to register many chemicals that are already safely used internationally.

### Binding companies in multiple strands of red tape

The problem of multiple regulators and regulations hampering commerce is not limited to small business: Boral Limited, an ASX100 listed Australian company, also struggles with red-tape.

Boral operates in the building and construction materials markets in Australia, Asia and the United States. Its Australian arm produces mineral construction materials, such as asphalt, cement, concrete and bricks; timber building products; construction-related items such as formwork and scaffolding, windows and concrete wall panels; and a range of other building-related products.

By virtue of operating in all States and Territories, Boral has been required to comply with more than 450 regulatory and advisory instruments, with OHS regulation having been a particular source of complexity. The various regulations included 8 principal OH&S Acts, 25 principal Regulations, 45 other Acts, 49 other Regulations, 144 Codes or Practice of Advisory Standards, and more than 200 other guidelines. These covered an array of areas include general health and safety issues, mining, dangerous goods, electrical safety, transport workers, compensation, gas and others (Boral Ltd., 2009).

## The Government's Deregulation Agenda

The Government's deregulation objective is to reduce the costs and restrictions imposed on business by removing inefficient regulation, simplifying compliance arrangements and improving the responsiveness of Australia's regulators. This will be ongoing, with a net \$1 billion in red tape cuts every year.

To assist the Government deliver on its objective, Commonwealth portfolios are auditing their existing regulations to better understand the scope and scale of the costs they impose on businesses, individuals and community organisations.

The Government held its first parliamentary Repeal Day on 26 March 2014, and repealed nearly 10,000 legislative instruments, representing around one quarter of all legislative instruments in force.

Together with the first Repeal Day, the Government has announced deregulatory initiatives that will remove more than \$700 million per annum in red tape. Specific changes include:

- making it easier for small businesses to do business and be paid by the Government, through standardised contracts and pay-on-time arrangements;
- allowing self-insuring national businesses to operate under one workers' compensation scheme right across Australia rather than having to operate in up to eight different jurisdictional schemes; and
- creating a sole designated assessor for offshore petroleum environmental approvals.

The Government is delivering on its election promise to cut green tape. Negotiations are underway with all States and Territories to establish one-stop shops for environmental approvals, whereby State governments will make a single approval decision taking into account State and Commonwealth requirements. This will simplify the approvals process for businesses, lead to swifter decisions and improve Australia's investment climate, while maintaining high environmental standards. Draft approval bilateral agreements with a number of States and Territories have already been released for public consultation. Once implemented, the one-stop shops will deliver quicker assessments, less duplication and less paperwork, saving businesses an estimated \$426 million per year. The Government will also continue working with the States on strategic assessments to complement the one-stop shops. Strategic assessments can deliver better environmental outcomes, while reducing costs to business by removing the requirement for project-by-project assessments and giving up-front certainty on the conditions under which development can occur.

The Government is acting to improve the responsiveness of regulators. Ministers are issuing statements to regulators setting out expectations for performance. These include the expectation

that regulators are transparent and accountable when making decisions. We also want regulators to approach businesses, process applications and communicate in a way that minimises regulatory burden. Regulators will adopt a risk based approach, for example, by focusing on businesses and activities that are higher-risk, and lowering compliance costs for lower-risk businesses. We are also continuing the roll out of Standard Business Reporting, to provide quicker and more accurate reporting across government agencies, and reduce the cost of regulatory reporting.

The Government is working with the States through the Council of Australian Governments (COAG) to reduce inefficient regulation in four key areas across all levels of government: the end-to-end regulation of small business; higher education; early childhood; and manufacturing. Each jurisdiction has also committed to examining red tape in a particular small business sector.

## Further Proposals

### **Proposal 1: Accept trusted international standards and risk assessments**

To reduce duplicative domestic regulation, the Government will adopt the principle that if a system, service or product has been approved under a trusted international standard or risk assessment, then Australian regulators should not impose any additional requirements, unless there is a good and demonstrable reason to do so. This will reduce costs and delays for businesses, increase the supply of products into the Australian market and allow regulatory authorities to focus on higher priorities.

The Government will review all Commonwealth Government standards and risk assessment processes in each ministerial portfolio and objectively assess whether unique Australian standards or risk assessments are needed.

- As a first step, the Government will enable Australian manufacturers of medical devices to register routine medical devices using conformity assessment certification from European notified bodies.
- Similarly, the Government will require the National Industrial Chemicals Notification and Assessment Scheme (NICNAS) to better utilise and increase its acceptance of international risk assessments materials from trusted overseas regulators. This will be part of broader reform to introduce a graduated, risk-based approach to the regulation of industrial chemicals that will streamline (and, in the case of low-risk chemicals, remove the need for) the pre market assessment of chemicals already authorised for use in comparable countries.

Portfolio Ministers will conduct consultations as part of existing deregulation commitments, including working with stakeholder groups to develop criteria for accepting or adopting trusted standards and assessments. Examples of unnecessary divergence from international standards can be submitted at the [cuttingredtape.gov.au](http://cuttingredtape.gov.au) website.

## **Proposal 2: Shifting the culture of regulation**

To build on the statements of expectations from Ministers to regulators, the Government is developing a Framework based on advice from the Productivity Commission (2014e) to assess regulator performance and ensure regulations are administered effectively and efficiently. It will help ensure that regulators communicate clearly, take a risk-based approach, and are consistent and accountable.

The Framework will apply to Commonwealth regulators that administer, monitor or enforce regulation. The Framework uses six outcome-based performance indicators that cover communications, risk-based and proportionate approaches, transparency, reducing regulatory burden, and continuous improvement.

The Government envisages that all regulators will self-assess their performance against the Framework once every 12 months and have the results of this assessment externally validated. This will be complemented by external reviews of regulators' performance against the Framework. The self-assessments and external reviews of regulator performance will be publicly available.

Public consultation on the Framework was undertaken in September 2014. We anticipate releasing a final Framework in October as part of 2014 Spring Repeal Day. It is proposed that the first assessment period will begin on 1 July 2015.

## **Proposal 3: Expand access to the Commonwealth workers' compensation scheme**

The Commonwealth Government has a rolling agenda of reforms to the Commonwealth workers' compensation system (Comcare). The Safety, Rehabilitation and Compensation Amendment Bill 2014 was introduced into Parliament in March 2014 to broaden the types of organisations that can opt-in to the Comcare workers' compensation and work health and safety regime. For employers operating in multiple Australian jurisdictions this means complying with just one set of rules for all of their operations. Under the Bill currently before Parliament, entry to Comcare arrangements is restricted to corporations that self-insure. As not all employers are able to cover risks themselves, an alternative may be to allow other private employers to access cover under the Commonwealth laws as premium payers rather than self-insurers.

The Government will commission advice about the viability of expanding access to the Comcare workers' compensation scheme and work health and safety laws. The advice will consider methods of access for employers who favour one set of arrangements yet would prefer to pay premiums rather than self-insure. This will enable employers to choose

whether coverage by a single national scheme may be more competitive than their existing coverage under multiple schemes.

#### **Proposal 4: Streamline construction regulation**

Local government variations in building and construction regulation are creating inefficiencies and adversely impacting the operations of businesses. This particularly affects small businesses, which make up 98 per cent of building and construction firms (ABS, 2013a). Local government regulation in excess of the National Construction Code (NCC) is a longstanding issue, acknowledged across jurisdictions, but has not been satisfactorily resolved.

Acknowledging the Commonwealth does not have Constitutional responsibility for this policy area, we will encourage States to improve consistency in construction regulation at a local level where there are variations that override requirements of the NCC to streamline construction regulation and reduce building costs. We will seek to accelerate the conversation on this issue between State and local governments.

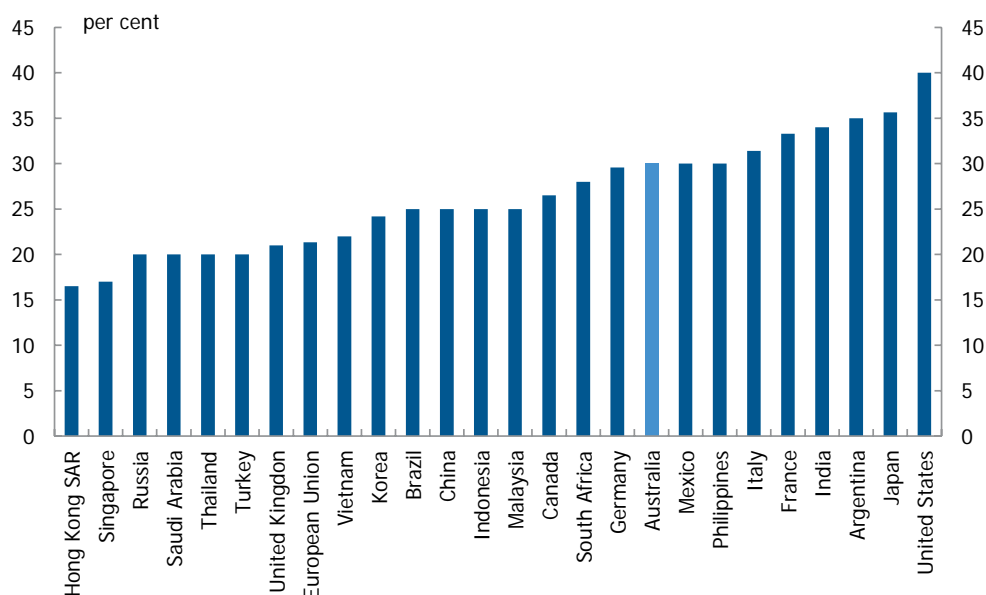
Following consultation with planning and local government ministers, State government Building Ministers will report back to the Building Ministers Forum in 2015.

### **Reducing the burden of taxation**

The Government wants taxes that are lower, simpler and fairer. While some early reforms have been undertaken, the Government will set out our plan for ongoing reforms in the White Paper on the Reform of Australia's Tax System.

Australian governments rely on tax revenue to fund the public investment and services our economy and society depend on, but taxes impose direct and indirect costs on businesses and individuals. Beyond their direct impact, taxes may also reduce the incentive to save, invest and produce. KPMG estimates that for every \$1 collected through company tax, more than 23 cents of value is lost to the economy (KPMG, 2010). Although dividend imputation reduces the burden of company tax in Australia for domestic shareholders, at 30 per cent our company tax rate is high by international standards (Chart 10). The OECD has suggested that the Australian economy would benefit from a shift toward less mobile and distorting tax bases (OECD, 2010b). This is because Australia is more reliant on corporate and personal income tax than the OECD average (OECD, 2014e). The States also rely on a number of more economically damaging taxes, particularly transaction taxes (stamp duties applied to insurance and property) which distort incentives for individuals and business to purchase insurance products or move locations.

Chart 10: G20 and other selected countries' corporate tax rates (2014)



*Note: includes national and sub-national taxes.*

*Data source: KPMG, 2014.*

The complexity of the tax system also imposes a significant compliance burden on individuals and businesses. As an indicator of the expanding complexity of the system, the income tax law has grown to around 6,000 pages today and Australia has the third highest rate of personal tax returns filed by tax agents in the OECD (OECD, 2011b). A recent survey of businesses found tax compliance costs of around \$18 billion for the Australian small and medium enterprise business sector in 2011-12 (Lignier et al, 2014). While larger businesses generally have higher compliance costs than small businesses, the compliance burden, as a proportion of turnover, is much more significant for small business. In fact, the smaller the business the greater the proportional cost of compliance, costing micro businesses roughly \$90 per \$1,000 of turnover, compared with \$12 and \$2 per \$1,000 turnover for small and medium businesses respectively (Lignier et al, 2014).

The Government is committed to a better taxation system to promote innovation, entrepreneurship, investment and growth. The Carbon Tax and the Minerals Resource Rent Tax have been repealed. The Carbon Tax imposed additional tax and compliance costs on around 75,000 businesses. Its removal will reduce household costs by around \$550 in 2014-15, and lead to an annual saving of \$85.3 million in compliance costs (Commonwealth of Australia, 2013; Department of Environment, 2014). Fewer than 20 taxpayers contributed to the meagre revenue raised by the Minerals Resource Rent Tax, but over 125 other miners were complying with the mining tax legislation, while not actually paying any tax. The tax cost the ATO over \$50 million to administer.

The 2014-15 Budget made provision to meet the Government's election commitment to cut the company tax rate by 1.5 percentage points, to 28.5 per cent from 1 July 2015. For large companies, the reduction will offset the cost of the Government's Paid Parental Leave levy. This is the first step in reducing the corporate tax rate to internationally competitive levels over time. Lowering company tax will make it easier for around 800,000 small and medium sized businesses to hire people, expand their operations and become more competitive. Cutting corporate taxes will encourage investment, and should boost real wage growth and employment.

The Government is committed to a simpler and more sustainable tax system. The Government is working with business to address new and emerging challenges in tax policy and law design and to simplify compliance, including through a review of features in the tax system that particularly impede small businesses. The Government has dropped or amended 58 tax and superannuation measures as part of dealing with the legacy of 96 announced, but unenacted, measures initiated by previous governments, providing certainty to taxpayers. The Government will reduce compliance costs for taxpayers by \$56 million a year by making changes to the way tax obligations are met and reported. An estimated 372,500 small businesses will benefit from the administrative changes to PAYG instalment thresholds. As a result of these changes, around 32,500 small businesses that have no GST reporting requirements will no longer need to lodge a business activity statement (BAS). The remaining 340,000 small businesses with modest or negative income that are required to lodge a BAS will no longer have to interact with the PAYG instalment system.

The Government also announced changes to the taxation system in the 2014-15 Budget to secure Australia's future. These include the Temporary Budget Repair Levy on high income earners to pay down public debt and the indexation of fuel excise to fund critical investment in roads infrastructure. The Temporary Budget Repair Levy will cease at the end of the 2016-17 financial year.

## Further proposals

While the need for further tax reform is great, reforms must be measured, transparent and predictable. Ad hoc changes create uncertainty and impose additional, often hidden, costs on the economy. Changes to tax law should not be seen as a 'quick-fix' solution and should be considered from a whole of system perspective. This is why the Government will produce a comprehensive Tax White Paper. Together with the Reform of the Federation White Paper, this will enable an open discussion about the future of Australia's tax system, which will be guided by the following objectives:

- simplifying the tax system and reducing taxpayers' compliance costs, including by improving regulatory certainty, to reduce the regulatory burden on business (particularly small business), community organisations and individuals;
- improving tax settings for productivity, international competitiveness and economic growth;
- improving incentives to work, including through the interaction of the tax and transfer systems; and
- improving incentives to save.

Ahead of this more fundamental assessment, some specific issues may be considered in the context of other White Papers and Reviews, including those examining agricultural competitiveness and the developing northern Australia. The Government is also considering changes to support the viability of start-ups and small businesses generally.

### **Proposal 5: Reduce superannuation compliance burden**

The Government is considering options to reduce the superannuation compliance burden on small business. During consultation with a wide range of stakeholders, options raised included:

- reforming the superannuation guarantee charge penalty regime to reduce its harshness and align the penalties with other tax laws;
- making the requirement to offer choice of fund to temporary residents optional; and
- removing the requirement for employers to re-offer choice to their employees when superannuation funds merge.

The Government is currently analysing options brought forward during consultation with stakeholders to better understand the compliance cost concerns of small business.

*For other changes to the tax system, see also Ambition 4, Proposal 15: Improve taxation arrangements for Employee Share Schemes*

## **Improving access to high-quality, low-cost business inputs through greater domestic and international competition**

Reinvigorating competition across the Australian economy will help bring down costs for businesses and consumers. Many Australian industries already face strong competitive pressures, particularly those in our internationally traded sectors. This fosters the discipline and continuous improvement in operations and products that is needed to compete with the best. It also benefits the Australian businesses and consumers who depend on the goods and services these industries produce. The Government is committed to opening up and increasing competition across the economy to improve Australia's international competitiveness.

Australian businesses use a range of domestic and international inputs. Farmers rely on roads and railways to get their produce to port, manufacturers rely on electricity to power their factories and small businesses need finance to start and expand their operations. A whole range of domestic manufacturers use imported components within their production chains. If providers of business inputs are not as competitive as they can be, our domestic producers and exporters face higher costs.

Competition also encourages innovative businesses to enter the market, inspires existing businesses to improve and allows more productive businesses to replace others. Competitive pressures can reduce service costs, improve reliability and increase input quality for business and achieve better outcomes for Australian consumers. Competition also gives workers a greater array of employment options. In a competitive jobs market, businesses must reward effort and excellence as well as improve employees' skills to retain good employees.

### **Initiatives to increase international competition and improve market access**

In the 1980s, 1990s and early 2000s, Australia opened up the economy to international trade and investment, lifting our competitiveness and living standards (Productivity Commission, 2005). Australia has lowered our average tariff rates from around 13 per cent in the early 1970s to 2.7 per cent in 2012, the lowest in the G20 (Lloyd, 2007; World Trade Organization, 2013). Our peak tariff rate, which applies to certain textile, clothing and footwear items, is scheduled to fall from 10 per cent to 5 per cent

#### **Opportunities from free trade agreements**

Australian automotive manufacturer MtM has supplied high-quality automotive components to the Australian industry for over 30 years. For the past decade, MtM has sought new opportunities to export its products. It has developed new relationships in China, Thailand, India and Malaysia and has established a Technical Agreement with Malaysian manufacturer, Proreka. Working on behalf of MtM, Proreka markets MtM's door check and gear shifter technology throughout the country. In the long term, MtM hopes to replicate its strategy in other parts of Asia.

in 2015. Australia's trade liberalisation between 1988 and 2008 is estimated to have raised GDP by between 2.5 and 3.5 per cent, adding around \$3,000 to the annual real income of the average Australian family (Centre for International Economics, 2009).

Australia has also negotiated many free trade agreements which lower imported input costs and open up international markets for our exporters. For example, under the Malaysia Free Trade Agreement, virtually all Malaysian tariffs on automotive parts and components were eliminated, creating more opportunities for Australian exporters.

The Government recently concluded trade negotiations with Japan and South Korea, and once these trade agreements are in force Australia will have agreements with eight of our top 10 trading partners (ABS, 2014h). The Government will continue to pursue trade agreements, such as the one currently under negotiation with China, and take practical actions to boost trade and lift competition as a part of its G20 growth strategy. The Government is also examining the potential to reduce non-tariff barriers while maintaining necessary safeguards such as quarantine, consumer safety and anti-dumping provisions.

Australian businesses also depend on foreign investment, so the Government is making it easier for significant investment to proceed. Our average investment rate of 28 per cent of GDP over the 10 years to 2012 is considerably higher than the average investment in the G20 of 25 per cent and the 21 per cent average of the OECD (World Bank, 2014a). Australia's free trade agreements have included provisions to improve access to foreign capital. In addition, the Government will help significant investment to proceed and contribute to growth, employment and transfer of new skills and technologies. To ensure that Australia is open for business, the Government is appointing five Senior Investment Specialists to Austrade from the private sector. These specialists will facilitate foreign direct investment projects in areas of strength including agribusiness and food; major infrastructure; tourism infrastructure; resources and energy; and advanced manufacturing,

#### Trade advantages from our 'clean and green' reputation

Australia is an internationally-renowned supplier of safe red meat and livestock. The Australian Agricultural Company Limited (AAco) is a world-leading provider of beef and agricultural products.

Part of a vertically integrated supply chain, AAco's Beef Group, specialises in producing and exporting premium boxed beef, including grass-fed, grain-fed and the highly prized Wagyu. These products are sold in 25 countries around the world.

AAco differentiates its beef products on quality, genetics, feeding regimes and levels of marbling. The company attributes its export success to strong relationships, effective brands, and the global reputation of its Wagyu beef.



services and technology. These align with the five national investment priorities for investment attraction that have been agreed by all States and Territories and the Commonwealth in February 2014.

## Further proposals

### **Proposal 6: Streamlined Customs processes for trusted traders**

There have been significant increases in sea and air cargos over the past 10 years, and this growth is expected to continue (ABS, 2014h; Australian Customs and Border Protection Service, 2013). Currently, the Government applies a standard approach to trade without any differentiation for traders who have a proven track record of being highly compliant with Customs requirements. New business models are starting to rely on immediate transfer of international cargo to domestic transport hubs. Australia's border processing will need to diversify away from a one-size-fits-all control model if future growth in international trade and supply chains is to occur.

The Government will consult with industry to co-design a 'trusted trader' programme to provide exporters and importers who have strong security practices and a history of compliant behaviour with access to streamlined custom procedures. The programme is expected to reduce paperwork for trusted traders, reduce screening examination requirements and give priority treatment for any trusted trader cargo selected for inspection. This should reduce compliance costs over time and allow them to get their goods faster to market.

The trusted trader programme will be rolled out in phases, and an Industry Advisory Group has been established to provide input as the programme is developed. An early access programme, open to a limited number of exporters, will commence in March 2015. Phasing-in of the full programme will commence in July 2015. The Government will also work with other governments to facilitate trade through international trusted trader arrangements, consistent with the B20 recommendation for practical trade facilitation through cuts to red tape.

### **Proposal 7: Removing barriers to professional services investment**

Australia has an open and competitive professional services sector, particularly in the areas of legal, accounting, architectural and engineering services. Liberalisation has positioned Australia to take advantage of the internationalisation of professional services, both through increased foreign investment in Australia and opportunities for Australian businesses through better linkages to overseas markets. However, there are a few remaining barriers which discourage investment and limit the continued expansion of Australia's professional services sector.

Acknowledging the Commonwealth does not have Constitutional responsibility for this policy area, the Government will encourage relevant State and Territory governments to remove remaining barriers that restrict foreign investors in professional services from forming certain types of legal entities. The Government will also continue to advocate the benefits of liberalisation for Australian business, to promote competitiveness and increase foreign investment.

### **Increasing domestic competition to reduce costs and improve goods and services**

Australian businesses rely on a range of domestically produced goods and services. Where there is insufficient domestic competition or poor regulation, business can face higher prices, poorer services and less variety. The National Competition Policy reforms that followed the Hilmer Review in the 1990s had a significant and positive effect on the Australian economy. The Productivity Commission (2005) estimated productivity improvements in infrastructure industries targeted by these reforms permanently increased Gross Domestic Product by 2.5 per cent. However, the pace of competition reform has slowed with the end of the main National Competition Policy reforms in 2005 and has arguably gone backward in some areas. The IMF, OECD and World Bank (2014) have highlighted that competition reforms could reap significant gains internationally. Following the release of Government commissioned reviews into Competition Policy, the Renewable Energy Target and the Financial System, and the finalisation of the Energy White Paper, the Government will consider the recommendations and work with the States as necessary to reduce the cost of, and improve access to, the goods and services businesses depend on.

The Competition Policy Review is examining whether Australia's competition policies are driving the most competitive outcomes, given the changes to the Australian economy in recent decades and our increased integration into global markets. It will determine where competition can provide further benefits to Australian consumers and businesses. The Review is also examining the regulations and regulators to ensure they are operating effectively and supporting competition, while minimising the burden on Australian businesses.

The Government considers that Australia is not fully realising the investment and export potential of our rich energy resources due to burdensome regulations and restrictions at all levels of government. This is why the Government is moving to reduce regulatory restrictions and costs on the energy sector. Until recently, offshore petroleum activities in Commonwealth waters required assessment and approval by both the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) and the Commonwealth Minister for the Environment under the *Environment Protection and Biodiversity Conservation Act 1999*. The Government has already simplified this process by making NOPSEMA the sole designated assessor for these activities in Commonwealth waters. The reform will save the industry \$120 million annually. We are working with the States and Territories to further reduce duplication of approvals in coastal waters.

The Energy White Paper and the Government's response to the Renewable Energy Target Review will consider how to improve the competitiveness of the energy sector while putting downward pressure on energy costs (Box B3). While we need to carefully balance environmental and other policy considerations, the competitiveness of the energy sector must be an ongoing priority. Through the Energy White Paper, the Government aims to make Australia more competitive by:

- attracting investment and creating a stable investment environment;
- putting downward pressure on electricity price rises, increasing competition and consumer choice, and driving regulatory and market reform to constrain future price rises; and
- reducing unnecessary regulation while protecting consumers and the environment.

### **Box B3: Australia's energy resources and the cost of energy for Australian businesses and consumers**

Australia has abundant energy resources. Australia ranks among the top five worldwide for known resources of black coal, recoverable brown coal and uranium. Australia produces about 2.4 per cent of total world energy (Geoscience Australia and BREE, 2014), but is not capitalising on this as it should. The Productivity Commission (2013b) reports the number and prescriptiveness of conditions placed on the sector is growing. For example, on average, it takes 20 months to prepare Environmental Impact Statements and collect public comments.

Australian businesses depend on low cost, reliable energy to be competitive. Yet, electricity prices have risen 60 per cent and gas prices 35 per cent in real terms in the five years to 2013-14 (ABS, 2014e). In the case of electricity prices, this reflects heavy investment in utilities infrastructure and also costly environmental policies (Department of Industry, 2013b). For example, it is estimated that the Carbon Tax and compliance with the Renewable Energy Target accounted for 9 per cent and 4 per cent respectively of residential electricity costs in 2013-14 (Australian Energy Market Commission, 2013; Warburton et al, 2014). In the case of gas, the Australian east coast domestic gas market has historically enjoyed

low prices. Recently, upward pressure on prices has flowed from higher costs of production and competition from higher priced international markets. This pressure is expected to increase, particularly in the east coast market.

This is why the Government is moving to improve the regulation of the energy sector to provide competitive prices and greater choice for Australian businesses and households. We started by scrapping the Carbon Tax and are considering the structure and future of the Renewable Energy Target, which has been independently reviewed. We will encourage regulatory settings that do not lead to over-investment in infrastructure and increase transparency in the gas market to improve certainty for businesses. The Government is also working with the States to finalise COAG energy market reforms to: curb future price increases; promote competition in electricity generation and retailing; support cost reflective pricing; and better regulate transmission and distribution monopolies. The Government's asset recycling initiative will encourage States to privatise assets, including electricity assets.

The Government is also working to improve efficiency and increase competition in the public sector. We are privatising Medibank Private and have initiated scoping studies into the future ownership and delivery arrangements of Australian Hearing, Defence Housing Australia, the Royal Australian Mint, and the registry services of the Australian Securities and Investment Commission. The Government's Asset Recycling Initiative will provide incentive payments to the States to privatise assets and reinvest the proceeds into new economic infrastructure (see Ambition 3). More broadly, the Government is applying a contestability framework to promote competition and efficiency in all areas of government activity. This means allowing different agencies or organisations, including those outside the public sector, to compete for the right to provide government functions. The Reform of the Federation White Paper will seek to reduce or eliminate overlap between jurisdictions' involvement in the delivery of public programmes.

The Government is focused on promoting a competitive and stable financial sector. The Financial System Inquiry is examining how the financial system could be positioned to best meet Australia's evolving needs and support economic growth. The Inquiry will make recommendations to foster an efficient, competitive and flexible financial system. Together with construction, the financial services and insurance industry was second only to mining in its contribution to economic growth last year and the competitiveness of financial services is critical to the broader Australian economy (ABS, 2014b). As G20 president in 2014, Australia is focusing the G20's efforts on delivering key aspects of the G20's financial regulation reforms. These reforms are aimed at strengthening the resilience of financial institutions; preventing and managing the failure of 'too-big-to-fail' financial institutions; and enhancing transparency and oversight of over-the-counter derivative markets and shadow banking.

#### Exporting financial services to the world

Bravura Solutions Pty Limited (Bravura) develops, sells, implements and supports financial services software globally. The firm's applications and consulting services help to administer financial products for the investment, superannuation, pensions, life insurance and private wealth industries. Bravura employs more than 750 people in 16 offices across 10 countries, and its software is used to manage more than A\$2.5 trillion in assets.



#### Further proposals

##### Proposal 8: Examine coastal shipping regulations

Australia's size and geographic isolation means that we need to ensure our transport networks (land, sea and air) are as efficient as possible. With Australia's freight task expected to almost double between 2010 and 2030 (BITRE, 2014b), more efficient coastal shipping services could help lift Australia's competitiveness and lower prices for consumers (Australian Competition and Consumer Commission, 2014). However, coastal shipping has been in long-term decline: for example, between 2000-01 and 2011-12, while the volume of Australian freight grew by 57 per cent, coastal shipping's share of the national freight task fell from around 27 per cent to just under 17 per cent of the total (BITRE, 2014b).

The Coastal Trading (Revitalising Australian Shipping) Act 2012 established a new licensing system restricting competition from foreign ships on Australian coastal routes, and followed changes from July 2010 that applied Australian wages and conditions to certain foreign-flagged vessels plying the coastal trades.

These regulatory changes were intended to arrest the decline of the domestic Australian shipping industry, but the number of large Australian registered ships licenced to engage in coastal trading (currently 18) remains below the number (23) operating before the changes commenced, and well below the 37 large vessels with coastal trading licences at the end of 2003-04 (BITRE, 2014c).

While doing little to arrest the decline in the coastal shipping industry, the new requirements have substantially increased shipping costs, resulting in much higher freight rates for domestic shipping clients. For example, Bell Bay Aluminium, a company that employs over 400 Tasmanians, reports its shipping costs have increased by 63 per cent from \$18.20 per tonne in 2011 to \$29.70 per tonne in 2012 (Bell Bay Aluminium, 2014). Cristal Mining Australia says it could save up to \$5 million a year if the current coastal shipping restrictions were removed (Cristal Mining Australia, 2014).

Higher freight costs erode the viability of Australian businesses that use coastal shipping services. These include Australian producers and manufacturers of products like sugar, cement, fertiliser, steel and aluminium, which are being replaced by cheaper imports. With an estimated 90,000 Australians employed in manufacturing sectors that use coastal shipping alone (Business Council of Australia, 2014b), this means that the coastal shipping regulations are undermining the incomes and jobs of many onshore businesses and workers.

In the petroleum industry, for instance, some companies have reported they no longer sell crude oil domestically due to the high costs and regulatory uncertainty associated with moving cargo from their offshore facilities to Australian ports (Caltex, 2014). Others have been undertaking voyages to Asia and back to get around regulatory constraints.

The Government released an options paper for regulating coastal shipping in April 2014 (Commonwealth of Australia, 2014c), and is currently reviewing coastal shipping regulations. The available evidence suggests that the long-term decline of the domestic shipping industry is due to broad economic factors. Government action to assist the industry and prevent sectoral job losses to date has failed to override the effects of these economic shifts and has come at a substantial cost to Australian businesses transporting goods to market. Improving competition in the coastal shipping sector could give onshore businesses access to efficient, flexible and cost-effective shipping services, supporting jobs growth and yielding broader economic benefits for Australia.

## AMBITION 2:

### A MORE SKILLED LABOUR FORCE

To make Australia more internationally competitive, the Government will increase the skill level of the Australian workforce by:

- improving the education and training system;
- attracting the best and brightest to Australia;
- returning our workplace relations system to the sensible centre; and
- boosting the workforce participation of parents.

#### Improving education and training

Business-relevant, high-quality education and training boosts innovation, encourages investment, and supports jobs growth and higher wages, reflected in Table 2 (International Labour Organization, 2011). The OECD (2012a) and the International Labour Organization (2008) suggest that a good skills development system anticipates skill needs, engages employers and

Table 2: Effect of education on hourly wages (%)\*

	Males	Females
Year 12	12.8	10.1
Diploma or certificate	13.8	11.4
Degree or higher	38.4	36.7

\*Average marginal increase (per cent) in hourly wages compared with education to year 11 or below.

Source: Forbes et al, 2010.

workers in decisions about training provision, and maintains the quality and relevance of training. The Business Council of Australia (2014a) has called for improvements to Australia's science, technology, engineering and mathematics (STEM) capabilities in particular, so that Australian businesses can better compete internationally. The Chief Scientist (2014) has also emphasised the importance of STEM capabilities (Box B4). While education is about more than just readying people for work, relevant skills acquisition must be a focus at all levels of the education and training system. This is why the Government is committed to work with State and Territory governments and the sector to improve the whole education system from primary education to higher education and the vocational education and training (VET) sector.

#### **Box B4: Science, Technology, Engineering and Mathematics: Australia's future — Chief Scientist of Australia**

In September 2014, the Chief Scientist released a paper calling for a strategic, whole of government approach to science, technology, engineering and mathematics.

The paper argues that investment in STEM is a key contributor to boosting productivity, creating more and better jobs, enhancing competitiveness and growing an economy. For example, one estimate is that scientific and technological advances have produced roughly half of all United States economic growth in the last 50 years. STEM may become an even more essential component of jobs in the future. International research indicates that 75 per cent of the fastest growing occupations now require STEM skills and knowledge.

The effectiveness of greater investment in STEM will depend on appropriate adaptation to the Australian context. Not all methods that have been successful internationally will find success here. Nevertheless, it is important that our level of STEM skills and knowledge, and the way they are utilised, does not hold back Australia's competitiveness or economic prosperity.

The evidence is mounting that Australia is not matching its overseas competitors on some performance measures:

- just 1.5 per cent of Australian firms developed new-to-the-world innovations in 2011, compared with 10 to 40 per cent in other OECD countries;
- fewer than one in three Australian researchers work in industry, which is half the OECD average and less than in the United States; and
- Australia's performance in mathematical literacy in schools has fallen in absolute and relative terms. Of the countries tested in 2003, only five significantly outperformed Australia in mathematical literacy. By 2012 we were outperformed by 12 countries. Around 40 per cent of our Year 7 to 10 mathematics classes are taught without a qualified mathematics teacher.

The paper includes 24 recommendations across a range of areas, including competitiveness, education and training, research and international engagement.

A key foundational requirement is that we have people with sound basic STEM capabilities. The Government recognises the importance of developing such capabilities.

A number of the other themes raised by the Chief Scientist are reflected in the Competitiveness Agenda (under Ambition 4). For example, the Government will align Australia's research priorities with our comparative advantages and foster collaboration between researchers and business; stimulate the growth of high-technology start-ups in Australia; and create a culture that is conducive to the commercialisation of good ideas. The Commonwealth Science Council, which is being established by the Government, will also consider several specific proposals raised by the Chief Scientist.

## Primary and secondary schooling

While primary and secondary education are primarily the responsibility of the States and Territories, the Government made an election commitment to restore the focus on science and mathematics in primary and secondary schools.

The Government is working with the States in four key areas: teacher quality; school autonomy; engaging parents in education; and strengthening the curriculum. The Government established a Teacher Education Ministerial Advisory Group, in February 2014, that will advise on how to improve STEM subject knowledge in teacher training. The Review of the Australian Curriculum has considered the robustness, independence and balance of STEM and other subjects.

The Government is also providing funding for two science-in-schools programmes administered by the Australian Academy of Science. Its 'Primary Connections: Linking science with literacy' programme enhances primary school teachers' confidence and competence in teaching science, and is designed to develop students' knowledge, understanding and skills in both science and literacy from an early age. The 'Science by Doing' programme supports



science teaching teams in secondary schools and is intended to increase engagement of secondary school students with science. The Government provided \$5 million over four years in the 2014-15 Budget to maintain these programmes and, as part of the Competitiveness Agenda, will provide further support to foster STEM skills development in schools (see Proposal 9, below).

## A more competitive higher education sector

The Government is also committed to improving the higher education sector through deregulation and better targeted funding arrangements. This will ensure that the system efficiently delivers education and training that properly prepares Australians, particularly young Australians, for the workforce and encourages them to upgrade their skills throughout their working lives.

Australia's university system is highly regarded, but its flexibility to respond to student and industry needs, and its capacity to focus on core functions rather than red tape, can be improved. We rank well on teaching, research and citations, which contributes to seven of Australia's universities being rated in the world's top 100 universities in the latest QS ranking (2014), and 14 of our universities in the top 100 under 50-years old, in the latest Times Higher Education results (2014). However, the Review of the Demand Driven Funding System (2014) suggested universities need greater control over their capacity to raise resources and respond to student needs, to improve their competitiveness and enable the delivery of higher quality teaching. Also, stakeholders raised concerns in the Review of Higher Education Regulation regarding the burden of reporting requirements (PhillipsKPA, 2013).

In the 2014-15 Budget, the Government announced the expansion of the demand driven system to all accredited bachelor and sub-bachelor courses at all approved higher education institutions, as well as the removal of fee caps from 2016. The continuation of the Higher Education Loan Programme means no student will have to pay up front for their university study. The Government has also accepted all of the recommendations of the Review of Higher Education Regulation, and is committed to reducing red tape in the sector by reducing duplication and simplifying reporting requirements.

### Capitalising on international education opportunities

Monash University has over 64,000 students – 21,000 of them international – with offshore campuses in Malaysia and South Africa, and international centres and partnerships in China, India, Italy and the UK. Over the past four years Monash's student enrolments at its Malaysia and South Africa campuses increased by 33 per cent. Monash has also diversified its student source markets by broadening its focus to new growth markets of Africa, Central Asia, Latin America, the Middle East, the United Kingdom and USA.

The Tertiary Education Quality and Standards Agency is also committed to improving the timeliness of its regulatory activities and to deregulation of the sector. Deregulating the sector will enable it to compete, innovate and improve the quality of research and teaching, with the goal of a world-class higher education system that meets the needs of Australian and international students.

## Vocational education and training that prepares Australians for work

The VET system is generally well regarded. Government support for VET training is extensive. It comprises \$6.2 billion per year in subsidy systems managed by the States, and a further \$1.4 billion per year in Commonwealth funding to support participation in apprenticeships and for other programmes targeting industry, youth and foundation skills. The system has several strengths including nationally recognised qualifications, industry-directed content, and training delivery through a mixture of public and private providers.

However, concerns have been raised about the VET system's ability to deliver the skills demanded by the Australian economy. A survey of employers by the National Centre for Vocational Education Research (2013b) indicated that satisfaction in the ability of the system to deliver job ready employees declined 6 percentage points, to 78 per cent, between 2011 and 2013. The Productivity Commission (2014b) has also indicated that improving the quality, flexibility and accessibility of training is needed to support the increasing geographic and occupational labour mobility required in the modern labour market. With only around 50 per cent of apprentices completing their training, and particularly poor completion and employment outcomes for lower level qualifications, the system also needs to pay more attention to the needs of trainees and employers alike (NCVER, 2013a).

The Government is working with State governments and industry to improve the VET sector to ensure that subsidies provided through training providers are flexible, address the needs of employers and lift completion rates. The COAG Industry and Skills Council has agreed on objectives for reform of the VET system, including effective governance, efficient government funding and a flexible system that meets industry needs. The Government has established a taskforce to work with key stakeholders, including State governments, registered training organisations, industry groups and employers, to develop a reform plan that creates a more agile and industry-focused VET system by:

- enhancing the capacity of the system to deliver high-quality outcomes for students;
- ensuring a stronger role for industry at all levels of the system;
- increasing the responsiveness of regulation; and
- increasing flexibility for training providers to meet employer needs.

As an initial step, the 2014-15 Budget provided \$476 million to establish the Industry Skills Fund to support the training needs of small to medium enterprises not readily met by the national training system. The Fund will commence on 1 January 2015 and will deliver 200,000 targeted training places and training support services over four years. It will prioritise assistance to small and medium enterprises (SMEs)



to position themselves to take advantage of new technology, innovative work practices, new and emerging opportunities, opening export markets and emerging economies. Larger companies may apply to access the Fund, but will be expected to make greater contributions towards the cost of training. Although the Fund will not exclusively target the following industries, the Government has identified immediate priority areas, including: food and agribusiness; mining equipment, technology and services; medical technologies and pharmaceuticals; oil and gas; and advanced manufacturing.

The Government is also providing eligible apprentices with financial assistance of up to \$20,000 over the life of their apprenticeship, through the Trade Support Loans programme, for those undertaking qualifications leading to occupations listed in the Trade Support Loans Priority List. Apprentices will be required to commence repaying the loans when their income exceeds a minimum repayment threshold (\$53,345 in 2014-15), consistent with the arrangements for university students under the Higher Education Loan Programme. Apprentices who successfully complete their training will receive a 20 per cent discount on the amount to be repaid.

## Further proposals

### **Proposal 9: Increasing the focus on science, technology, engineering, mathematics and innovation in schools**

As part of the Competitiveness Agenda, the Government is providing additional support to foster school students' interest and competency in STEM. This will better equip students with job-relevant skills.

#### **Supplementing support for maths, science and computing in schools**

The Chief Scientist has identified a critical need for learning resources that will engage students in mathematics, particularly to expand the pipeline of students taking advanced mathematics in senior school years.

The Government will therefore provide \$7.4 million to assist to develop and implement 'Mathematics by inquiry'. These maths-in-schools programmes for primary and secondary school students will deliver innovative and engaging teaching and learning resources to support implementation of the Australian Curriculum.

Building on these maths education programmes, the Government will provide a further \$3.5 million to encourage the introduction of computer coding across different year levels in Australian schools. 'Coding across the curriculum' will contribute to addressing Information and Communication Technology (ICT) industry feedback which consistently emphasises a looming acute shortage of computer programming skills.

It is anticipated that a consortia of organisations with appropriate professional capacity and technical expertise will be contracted through tender processes to deliver these programmes.

The Government will also encourage greater student participation in summer schools for STEM students, particularly for girls, disadvantaged and Indigenous students, including those living in regional and remote areas. This programme is designed to provide students with unique experiences in science and mathematics, stimulating their passion for these learning areas. The Government will provide \$600,000 to support travel and accommodation for participants, building on existing national summer schools for STEM.

#### **Trialling a new, innovative pathway from education to work**

To help develop the next generation of Australian innovators and job-ready graduates, the Government will trial the establishment of an innovative approach to education, having regard to the United States' Pathways in Technology Early College High School (P-TECH) model.

In that model, P-TECHs span high school and college, offering a six-year associate degree to help young people successfully transition from education to work with the knowledge and capabilities, including competency in STEM subjects that are in demand by industry. Over 20 P-TECHs are now operating in the United States, most developed as public-private partnerships, with graduates typically offered a position with the sponsoring business before other candidates (Governor of New York, 2013; Governor of Connecticut, 2014; Mayor of Chicago, 2012).

The Government will initially set aside modest seed funding of \$500,000 to facilitate the enhancement of an education facility in Australia having regard to the P-TECH model. The pilot programme will utilise existing school, vocational and tertiary qualifications, rather than create a new qualification. Students will undertake regular high school curriculum subjects alongside technical subjects such as computer programming, graphics, logic and problem solving. Workplace learning subjects including workplace visits, project-based learning and internships will be embedded in the curriculum and school timetabling. Working in partnership with school leaders, employers will be actively involved in the design and delivery of the courses. Importantly, students will have identified pathways to employment with the school's industry partners. Students will be able to graduate with a Year 12 qualification, but will be actively supported to complete further study and gain a post-school ICT diploma or advanced diploma with opportunities for employment with the businesses involved in the programme. The Government will look to locate the programme in an area with access to industry but high youth unemployment.

### **Proposal 10: Improving the Vocational Education and Training system**

As part of the Competitiveness Agenda, the Government is introducing the next wave of reforms for the VET sector.

#### **A new model for apprenticeship support services**

The Government will implement new arrangements for delivering support to Australian apprentices and their employers from 1 July 2015. The Australian Apprenticeship Support Network will provide a one-stop shop for employers looking to hire a new apprentice suited to their business. It will aim to improve participation and completion rates by providing services including:

- connecting apprentices and employers through targeted job matching;
- providing advice about different course and training delivery options;
- delivering personalised mentoring and support to 'at risk' apprentices;
- providing guidance to businesses taking on apprentices, including on their roles and responsibilities;

- managing the administration of an apprenticeship, including the training contract; and
- administering the Australian Apprenticeships Incentives Programme, including employer incentives and trade support loans.

### Pilot training scholarship programmes under the Industry Skills Fund

The Government is trialling a new approach to funding training, by investing in two new innovative pilots that will enable young job seekers in regional communities to acquire a job and provide employers the skilled employees they need to grow their business.

- **Training for Employment Scholarships:** 7,500 scholarships will be provided to smaller employers who take on a new worker, aged 18–24, in regional Australia and areas where youth unemployment is high. Approved employers will be able to engage a training provider of their choice and be reimbursed for the cost of up to 26 weeks of training once their employee completes their training.
- **Youth Employment Pathways:** This will provide support for training 3,000 disengaged young people, aged 15–18 in regional Australia and areas of identified higher levels of youth disengagement. Community groups would be eligible to receive funding for each person they put through a job-ready youth programme. The full value would only be redeemable once the trainee goes into employment or further study after completing their training.

### Streamlining Governance and Regulation

Further steps will be taken to ensure a role for industry at all levels of the training system, to improve VET regulation and reduce unnecessary red tape. These include:

- moving the national regulator, the Australian Skills Quality Authority (ASQA), to a new risk based model with improved information and education services, better recognition and greater autonomy for highly compliant providers and a more targeted focus on poor quality providers;
- revising standards for training providers and regulators to make them clearer, require providers to engage with industry, and address concerns about marketing and subcontractors; and
- improving the qualifications system to increase flexibility and better meet skill needs.

ASQA has already taken steps to reduce its level of interaction with training providers on low-risk activities. For example, from 1 July this year, ASQA has been automatically updating the scope of courses a registered training organisation (RTO) can offer when a course that an RTO already delivers is updated in a minor way. It has also generally stopped applying the financial viability test when a RTO seeks re-registration.

### Ongoing work programme

The Government is working to address additional issues in the VET sector, including through considering options to improve data collection and information sharing between key VET stakeholders, and possible reforms focusing on VET in schools and school based apprenticeships.

The Government is working with States and Territories through COAG, the COAG Industry and Skills Council and the Reform of the Federation White Paper on these and other opportunities to improve the VET system nationally. Streamlined governance arrangements have been agreed for the COAG Industry and Skills Council with a move to a single industry-led Australian Industry and Skills Committee. The Minister will also be directly advised by industry through his VET Advisory Board.

## Attracting the best and brightest to meet Australia's skills needs

Skilled migration is critical for a strong and vibrant economy. As well as building the skills of the domestic workforce through education and training, Australia will increasingly need to compete for the world's best and brightest.

The know-how, innovation and entrepreneurship of highly skilled migrants can lift a country's productivity and competitiveness directly. Skilled migrants can also raise the capabilities of the local workforce by transferring their skills and knowledge. Short-term migration can also deal with temporary skills shortages. Where particular skills are critical for business projects but are in short supply, skilled migration can enable such projects to proceed, generating jobs and incomes for Australian workers too. Skilled migrants also often bring capital, or can help to attract it, and are major contributors to government taxation revenues.

Highly skilled workers are becoming increasingly internationally mobile. As their skills are in high demand globally and are readily transferable across borders, these workers have a great many choices about where they work. Australia needs to maintain a welcoming attitude towards skilled migrants and minimise the roadblocks to their migration, not least because they might otherwise work for our competitors.

While migration has been a hallmark of Australia's development, many Australians have concerns that large inflows of foreign labour could place pressure on wages, conditions and jobs. This is of particular concern for those with low skills or other difficulties attaining and retaining employment.

This highlights the importance of focusing on skilled migration, which can increase the employment prospects and incomes of lower skilled Australians. Business groups have emphasised the importance of skilled migration for increasing the skills of Australian workers, and for the viability and competitiveness of operations in Australia more generally.

The Government will continue to ensure that the migration programme is targeted and managed in a way that grows employment opportunities for Australians. In the 2014-15 Budget, the Government reconfirmed its focus on skilled migration, again allocating more than two thirds of total permanent migration places to the skills stream. The Government also announced a reorientation towards employer-sponsored visas, assisting employers to find workers to fill vital positions where they have been unable to find local workers.

## Further proposals

### **Proposal 11: Streamlining the subclass 457 visa programme**

The 457 visa programme is an important element of Australia's skilled temporary migration programme. It offers business an avenue to quickly access skilled workers, where genuine skills shortages exist, to enable projects to proceed. Employers overwhelmingly prefer to hire Australian workers as it is cheaper and faster to fill skills requirements locally where there are suitable workers. But the 457 visa programme is very important for filling roles with temporary skilled migrants where there are genuine skills shortages.

In February 2014, the Government established an Independent Review of the Integrity of the 457 Programme, to examine how to maintain the programme's integrity as a means of filling genuine skills gaps in the local labour market while not placing unnecessary administrative burdens on business. This followed the introduction of many new requirements which increased the burden on businesses accessing temporary skilled workers. The Review heard that the current design of the programme delays and limits the ability of businesses to fill skill gaps.

The Government will reform the 457 visa programme in line with the Review's key recommendations. In particular, these reforms will reduce, where appropriate, burdens placed on business by regulations while enhancing the integrity of, and compliance within, the programme to ensure that Australian workers have priority. The Government will:

- streamline the processing of sponsorship, nomination and visa applications around risk-factors to reward low-risk applicants and re-focus compliance and monitoring activities on high-risk applicants;
- reform sponsorship requirements to reduce the time and cost to businesses;
- increase the sponsorship approval period from 12 to 18 months for start-up businesses, to give start-ups more time to build their businesses to ensure sustainability;

- provide greater flexibility in relation to English language testing and skill requirements for 457 applicants, to ensure that the standards required are appropriate for the industries and occupations being sought; and
- retain the Temporary Skilled Migration Income Threshold at \$53,900, ahead of a future review of its operation.

We will continue to work with industry to ensure that the process of recruiting overseas workers is less cumbersome and expensive. At the same time, the Government will improve employment opportunities and outcomes for Australians.

Changes to give effect to these decisions will be rolled out in phases during 2014-15.

### **Proposal 12: Expanding the investment visa programme**

The Government will also expand and improve the significant investment visa programme. At present, Significant Investor visas (SIV), which can provide a pathway to permanent residency, are available for applicants having an eligible investment in Australia of A\$5 million for a minimum of four years. An internal review in 2014 by the Department of Immigration and Border Protection found that Australia faces stiff competition from other countries with similar investor visa programmes, which often have less onerous application criteria and processing requirements. It also explored ways to diversify the sources of investors under the programme, to more effectively target premium investors and to streamline the programme's administration.

The Government will reform the programme to encourage more high net worth individuals to make Australia home and to leverage and better direct additional foreign investment, while maintaining safeguards to ensure the migration programme is not misused. The changes to the programme will:

- streamline and enhance visa processing, further promote the programme globally and strengthen integrity measures, to increase the attractiveness of investing and settling in Australia while ensuring Australia's interests are protected;
- align the criteria for eligible (or 'complying') investments with the Government's national investment priorities. The investment eligibility criteria will be determined by Austrade in consultation with key economic and industry portfolios;

- introduce a Premium Investor visa (PIV), offering a more expeditious, 12 month pathway to permanent residency than the SIV, for those meeting a \$15 million threshold; and
- task Austrade to become a nominating entity for SIV (complementing the current State and Territory governments' role as nominators) and to be the sole nominating entity for PIV.

The changes to the SIV will take effect during 2014-15, with the PIV to be introduced from 1 July 2015.

## Returning the workplace relations system to the sensible centre

Workplace relations regulation has become too rigid and is hurting Australia's competitiveness. The workplace relations system has an important role in ensuring workers' rights, pay and conditions are fair and appropriate. At the same time, businesses need the flexibility to adapt and seize new opportunities and workers must be free to negotiate working arrangements that suit their personal ambitions and circumstances. The Australian economy continues to adapt and change as the world changes and our workplace relations system must do the same, otherwise our businesses and workers will be left behind. The Government is committed to returning the workplace relations system to the sensible centre.

The *Fair Work Act 2009* provides the legislative framework underpinning the national workplace relations system, which covers the majority of Australian workplaces. The Government is committed to keeping the Fair Work framework, but we want to ensure it helps build a more stable, fair and prosperous future for Australia's workforce, businesses and the economy. To this end, the Government has promised that the Productivity Commission will be asked to undertake a comprehensive review of the workplace relations framework, including the Fair Work laws. This will include an assessment of the impact of the framework on productivity, how it could be improved to promote more jobs, better wages and living standards, make workplaces operate better and reduce red tape. The Commission's recommendations will inform any workplace relations policy the Government takes to the next election.

In the meantime, consistent with our pre-election commitments, we have a significant agenda we are advancing in this term of government.

First, Australia's crucial building and construction sector has been hampered by the abolition of the Australian Building and Construction Commission (ABCC) in 2012. The sector employs more than 1 million people and accounts for around 8 per cent of GDP (ABS, 2012). The sector needs an effective regulator, yet the previous Government replaced the ABCC with Fair Work Building and Construction (FWBC), which has fewer powers and a 30 per cent smaller budget. On FWBC's watch there have been a number of productivity-sapping disputes marred by violence and intimidation, including those relating to the Myer Emporium site in August 2012, the Little Creatures brewery site in Geelong in late 2012, and City West Water.

The Government has introduced legislation to re-establish the ABCC. As noted by the Productivity Commission (2014d), the performance of the building and construction sector improved following the establishment of the ABCC, with reduced days lost to industrial disputes, greater productivity in key parts of the industry and better management-worker relations. The new ABCC and higher penalties for unlawful conduct will again ensure work is carried out fairly, efficiently and productively.

Second, the Government introduced legislation to deliver better protection for members of Australia's trade unions and employer organisations by better aligning the responsibilities of, and penalties for, the officers of Registered Organisations with those of company directors. A Registered Organisations Commission will be established to improve oversight, with investigative and information-gathering powers modelled on those available to the Australian Securities and Investments Commission. The Registered Organisations Commission will have the power to commence legal proceedings and refer possible offences to prosecutors and law enforcement agencies.

Third, several problems are being addressed through our Fair Work Amendment Bill 2014, which aims to restore balance to the workplace relations system by:

- *Removing the capacity of unions to frustrate greenfields agreements bargaining through unsustainable claims and delays* — Negotiations for greenfields agreements (for new projects) have been exempted from the good faith bargaining rules that apply to existing workplaces. Submissions to the 2012 Fair Work Act Review showed some unions have exploited this exemption for greenfield agreements to pursue excessive wage claims and delay the commencement of projects, creating doubt over whether a project will proceed (McCallum, Moore, & Edwards, 2012). The Bill extends good faith bargaining rules to greenfields agreements. Further, where a greenfield agreement is unable to be reached within three months, the employer will, subject to appropriate safeguards, be able to have the Fair Work Commission approve the agreement.
- *Restoring union workplace access rules and reducing excessive right-of-entry visits by union officials* — The current right of entry provisions are broader than under previous workplace relations legislation. Under the Fair Work Act, union officials with an entry permit have

a right to access workplaces including those that do not have any members. The 2012 Fair Work Act Review found this has led to frequent use of entry rights by some unions. The Review notes that during the construction phase of BHP Billiton's Worsley Alumina plant, visits by union officials increased from zero in 2007 to 792 visits in 2010 (McCallum et al, 2012). The Bill provides that a union is entitled to enter a workplace for discussion purposes only if it is covered by an enterprise agreement, or it has been invited. Further, the Bill ensures the Fair Work Commission can properly deal with excessive right of entry visits – for example, by suspending, revoking or imposing conditions on an entry permit.

- *Improving workplace flexibility by enhancing the scope for employees to make individual flexibility arrangements that meet their genuine needs* — Under the Fair Work Act employees and employers should be able to achieve flexibility in the workplace through individual flexibility arrangements (IFAs). However, the Fair Work Act currently allows enterprise agreements to restrict the use of IFAs. This means that employees covered by an enterprise agreement may be denied the opportunity for more suitable workplace arrangements even if their employer agrees. The Bill provides workers with fair flexibility by ensuring IFAs can be made in relation to a minimum of five key conditions.
- *Closing the 'strike first, talk later' loophole in the good faith bargaining rules* — The Fair Work laws enable industrial action in support of claims for a new enterprise agreement before bargaining has commenced. The Bill ensures industrial action cannot be the first step in the bargaining process.

The Government will further amend the Fair Work legislation to ensure that protected industrial action can only happen after there have been genuine and meaningful talks between workers and business during enterprise bargaining and only in support of claims that are not manifestly excessive and would not have a manifestly adverse impact on workplace productivity. We will also require employees and employers to consider productivity improvements when bargaining for an enterprise agreement.

## **Boosting the workforce participation of parents**

The Government aims to boost women's workforce participation to help increase Australia's labour force and GDP, and this will be supported by the proposed Paid Parental Leave (PPL) scheme and informed by the Productivity Commission review of Childcare and Early Childhood Education.

The gap between women's and men's labour force participation rate is 16.7 percentage points for those aged 25 to 34 years and 11.9 percentage points for those aged 15 years and older (OECD, 2014b). Closing the gap in the participation rate between women and men is estimated to boost Australia's GDP by 13 per cent (Toohey, 2013). The availability of paid parental leave and affordable childcare are strongly supported by international organisations to assist women's workforce participation (OECD et al, 2014; Elborgh-Woytek et al, 2013).

The Government has committed to introducing a new national PPL scheme. Under the scheme, eligible parents would be able to receive 26 weeks of payment at their wage (up to a maximum of \$50,000) or the national minimum wage, whichever is greater, plus superannuation (at the Superannuation Guarantee rate), providing parents with greater financial support to care for their new child. The new PPL scheme will encourage female workforce participation by supporting women to remain engaged with their employer. In addition, the Government aims to ease the administrative burden on employers by taking responsibility for making payments to eligible employees.

The Productivity Commission's review is examining the contribution that affordable, quality child care can make to increased workforce participation (particularly for women), children's learning and development, the current and future need for child care in Australia, and the impacts of recent regulatory changes. In its draft report, the Commission (2014a) recommended changes to child care subsidies, a broadening of the scope of the existing National Quality Framework, and changes to reduce regulatory burden and enable provision of more flexible services. The Government will respond to the Commission's recommendations after it finalises its report in October 2014.

### BETTER ECONOMIC INFRASTRUCTURE

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To meet Australia's economic infrastructure needs for the 21st century, the Government is:

- increasing public investment in economic infrastructure;
- improving infrastructure project selection, funding, financing and delivery; and
- encouraging greater private sector investment in infrastructure.

#### **Economic infrastructure for the 21st century**

Economic infrastructure – roads, rail, ports, airports, energy, water and communications networks – is key to Australia's competitiveness. Economic infrastructure opens up new markets, and reduces the cost and increases the speed of doing business. It connects business with skilled labour, facilitates information and technology transfer, and allows greater specialisation by businesses and workers. Better economic infrastructure can also reduce or eliminate travel time and job search costs, allowing workers to access more distant workplaces. These benefits are particularly important for Australia due to its geographical size, dispersed population, and distance from overseas markets. The Government is committed to addressing Australia's infrastructure needs.

Australia's current economic infrastructure will not be able to meet Australia's needs in the 21st century. Australia's domestic infrastructure demands are growing rapidly. By 2060, Australia's population will have increased by over 15 million, or around 70 per cent, and our major cities will grow even faster (Productivity Commission, 2013a). Australia's trade-related infrastructure demands are also growing rapidly. Global GDP is expected to double by 2030 and trade will grow even faster, particularly within Asia and between major regions (OECD, 2011a; Au-Yeung et al, 2013). Globally, this is expected to cause air passenger traffic to more than double; air freight to triple; and port handling of maritime containers to increase four-fold (OECD, 2011a).

Australia must invest in infrastructure if it is to be ready to meet our domestic economic and trade needs. If Australia's infrastructure needs are not addressed, the costs will increase (see Box B5). Consistent with this, businesses have ranked better infrastructure as a top priority. PricewaterhouseCoopers (2014) found that 83 per cent of Australian CEOs considered infrastructure improvement to be the number one priority, compared with around 50 per cent of CEOs internationally. Similarly, the Australian Industry Group (2014) found 68 per cent of Australian businesses put infrastructure in their top three priorities.

While investment in better economic infrastructure is needed to support Australia's competitiveness, it is crucial to have strong institutional and governance arrangements in place for its provision and delivery. There has been significant investment in public infrastructure in recent years, but the investments have not always been the right ones (ABS, 2014g; Productivity Commission, 2014d). There is also scope for increased private sector involvement and investment in public infrastructure, particularly in transport. The Government is making public and private investment in the right infrastructure a priority.

#### **Box B5: Increasing demands on Australia's infrastructure**

**Increasing congestion is costing an estimated \$15 billion per year** (Department of Infrastructure and Regional Development, 2014c). Travel by car reached 267 billion passenger kilometres in 2011-12, with 175 billion of these travelled on capital city roads (BITRE, 2013c). The 'avoidable' cost of congestion in capital cities was estimated as \$9.4 billion in 2005, including \$3.6 billion in business time costs (BITRE, 2007).

**Freight volumes have nearly tripled over the past three decades.** In 2011-12, the domestic freight task totalled almost 600 billion tonne kilometres, which is approximately 26,000 tonne kilometres of freight moved for every person in Australia. Rail transport accounts for around half of total domestic freight, road freight about 35 per cent and coastal sea freight 17 per cent (BITRE, 2014b).

**Passenger movements through Australia's airports have more than quadrupled over the past three decades.** In 2013, passenger movements in Australia totalled nearly 145 million – an increase of more than 110 million since 1985. Total international air freight has also nearly quadrupled, increasing from around 231,000 tonnes in 1985 to nearly 880,000 tonnes in 2013 (BITRE, 2014a).

**Tonnage at Australia's bulk ports has increased six-fold over the last three decades.** Bulk ports are crucial for handling the importation and distribution of petroleum, cement materials and bauxite-based commodities between mining areas, refineries and smelters (BITRE, 2013a).

**Subscribers to broadband internet grew thirteen-fold from 2003-04 to 2011-12 and mobile phone users almost doubled** (BITRE, 2013b; 2013c). Electronic communications are now integral to everyday education, consumption and business activities, including trade, highlighting the importance of sustainable investments in broadband technology and regulatory regimes that ensure the benefits of low cost distribution via the internet are passed on to businesses and consumers.

## Increasing public investment in economic infrastructure

As announced in the 2014-15 Budget, the Government is delivering an \$11.6 billion Infrastructure Growth Package to support economic growth, give businesses the opportunity to prosper, and expand the economy's long term productivity. Over the next six years, the package will take the Commonwealth's total investment in transport infrastructure to \$50 billion, bringing forward significant economic infrastructure projects.

The package includes a \$5 billion Asset Recycling Initiative to unlock new infrastructure investment. The Government will provide incentive payments to States and Territories that privatise State-owned assets where the proceeds are reinvested in new productivity enhancing infrastructure. As well as encouraging States and Territories to unlock their infrastructure balance sheets, the initiative will create opportunities for investors and increase private sector investment in quality infrastructure assets around Australia.

The package will bring forward investment in key roads and boost funding for existing infrastructure programmes, including:

- East West Link (stage 2) in Melbourne;
- WestConnex in Sydney (stage 2);
- the Perth Freight Link in Western Australia;
- the Toowoomba Second Range Crossing in Queensland;
- the North-South Road Corridor in Adelaide;
- Northern Territory road upgrades;
- \$229 million in a National Highway Upgrade Programme;
- additional funding of \$200 million for the Black Spot Programme; and
- an additional \$350 million for the Roads to Recovery Programme.



The package further includes \$2.9 billion towards the ten-year, \$3.5 billion Western Sydney Infrastructure Plan being delivered in partnership with the New South Wales Government. This will fund major road projects associated with the development of an airport at Badgerys Creek and provide local transport infrastructure necessary for Western Sydney's projected growth.

The Government also recognises the role rail infrastructure can play in facilitating freight movements and easing congestion on the roads. The Government will examine further investments and upgrades to the national rail network where appropriate. The Government is

committed to addressing delivery of the Inland Railway from Melbourne to Brisbane over the next decade, and allocated \$300 million for pre-construction works in the 2014-15 Budget. The Budget also provided:

- \$50 million to install Advanced Train Management System technology between Port Augusta and Whyalla in South Australia;
- \$75 million for the next stage of upgrades to the Port Botany Rail Line in Sydney;
- \$38 million to the Melbourne Metropolitan Intermodal System; and
- \$120 million over five years to the Tasmanian Freight Rail Revitalisation Programme.

The Infrastructure Investment Programme will boost the Commonwealth's total investment in transport infrastructure to \$50 billion through to 2019-20. This is expected to leverage a further \$75 billion of investment from the States and Territories and the private sector. Taken together, this means in excess of \$125 billion of additional infrastructure investment, adding an estimated 1 percentage point to GDP once construction is completed.

The Government also recognises that communications infrastructure is a key enabler for a competitive economy. The Government is rolling out the National Broadband Network to bring high speed broadband within the reach of all Australian premises. We have recalibrated the project to use the most cost effective technology and allow a faster and more affordable rollout. The Government is providing \$100 million for the Mobile Black Spot Programme to improve mobile coverage in regional Australia and stimulate competition by rolling out new mobile base stations.

#### Infrastructure for the future

The Government has confirmed Badgerys Creek will be the site of Western Sydney's much-needed future airport. Sydney's Kingsford Smith airport is the gateway to Australia's largest city and accounts for around 40 per cent of international arrivals and around 50 per cent of international air freight each year. With no action, Kingsford Smith airport risked reaching capacity causing Australia to lose out on around 80,000 additional jobs and \$34 billion (in 2010 dollars) in economic activity by 2060 (Department of Infrastructure and Regional Development and NSW Government, 2012). Airports are unique among transport infrastructure in that they provide employment for more people in operation than they do in construction. A new airport at Badgerys Creek could create thousands of jobs in Western Sydney within a decade of opening, increasing to 60,000 jobs over time. By 2060, the new airport has the potential to drive an increase in Australia's GDP of around \$24 billion (Department of Infrastructure and Regional Development, 2014b).

The Government is also committed to starting the detailed planning necessary to build new dams to ensure water security for communities and industries. A Ministerial working group has been established to identify priorities for fast-tracking investment in water infrastructure. It has considered a variety of options and examined how new or existing water infrastructure projects could respond to community and industry needs and boost economic development. The outcomes of this work may be considered in the Developing Northern Australia and Agricultural Competitiveness White Papers.

Alongside this work, the Government has commissioned Infrastructure Australia to audit critical water, energy, communication and transport infrastructure in northern Australia and separately across the nation. These independent audits will help to inform the approaches and work programme on water supply and use over the coming years.

## **Improving project selection, funding, financing, delivery and use**

Reforms to improve project selection, planning, financing, delivery and cost are also critical to get the most value from new and existing infrastructure.

Australia's institutional and governance arrangements for the provision of infrastructure need to be improved. Deficiencies in these arrangements can skew infrastructure priorities and inflate project costs, potentially costing business and the community billions. Australian governments could readily save at least \$1 billion a year in project costs by getting infrastructure policy settings right and eliminating the current flaws in the system (Productivity Commission, 2014d) — money that could be re-invested to help meet Australia's infrastructure needs.

It is important to prioritise infrastructure projects based on broad economic analysis, consideration and assessment of national infrastructure priorities, and rigorous and transparent assessments of specific projects to ensure the right outcomes for business and the community. This is why the Government has tasked Infrastructure Australia to:

- undertake five-yearly evidence-based-audits of Australia's infrastructure asset base;
- develop a 15 year infrastructure plan; and
- evaluate proposals for nationally significant economic infrastructure, where the Commonwealth Government is contributing more than \$100 million in funding.

The 15-year infrastructure plan will provide a blueprint of nationally significant infrastructure required to drive economic growth, and when specific infrastructure will be needed. For the first time, Australia will have an integrated plan of infrastructure needs across transport, water, communications and energy. This will enable better investment planning and allow governments to put in place appropriate policy and regulatory processes to support that growth, including preserving key corridors and economic precincts. It will also facilitate engagement with the private sector on an expected pipeline.

The Government has also strengthened Infrastructure Australia's independence – changes that were necessary to deliver an effective long-term plan for Australia's infrastructure needs. The previous advisory Infrastructure Australia Council has been replaced by an Infrastructure Australia Board, with clear accountabilities under the *Public Governance, Performance and Accountability Act 2013*.

The Government has also received the Productivity Commission's report on Public Infrastructure (2014d). The report makes recommendations on better institutional and governance arrangements, improvements to project planning and prioritisation, funding arrangements for infrastructure, as well as other aspects of delivering infrastructure projects in Australia.

As the Productivity Commission (2014d) recommended, the Commonwealth will continue to focus its assistance on projects with demonstrable net public benefit that would not be obtainable without Australian Government support. Most of the recommendations are for the States to implement, and the Commonwealth is therefore leading discussions with them to drive further reforms to improve infrastructure planning, funding and delivery. The Commonwealth will release a response to the report in the second half of 2014.

In addition to ensuring the right investments in new infrastructure, it is important that the best use be made of existing infrastructure assets. The Productivity Commission (2014d) made several recommendations aimed at improving infrastructure usage, and the Government will respond to these recommendations as part of its broader response to the Commission's report.

### **Encouraging greater private sector investment in economic infrastructure**

The Government is seeking to increase private sector investment in economic infrastructure. This includes attracting foreign construction companies and pension funds to invest in the development of Australian infrastructure as part of the Government's foreign investment priorities.

In recent decades, the private sector's role in delivering major economic infrastructure has increased, although it is still limited when it comes to transport infrastructure. The private sector delivered more than half of the engineering construction work done for the public sector in recent years, compared with around one third in 1986 (ABS, 2014g; BITRE, 2013c; Department of Infrastructure and Regional Development, 2014c). In 2013, the most substantial private sector construction activity occurred on oil, gas, coal and other minerals projects, with roads and railways accounting for less than 17 per cent of the sector's total construction activity (ABS, 2014g). This partly reflects that roads are typically public goods for which it is difficult or costly to charge users and beneficiaries directly (for example, through tolls and value capture etc), which has reduced the commercial viability of private sector investment.

However, government budgetary constraints mean that the traditional model of funding and financing infrastructure is no longer sustainable, in the absence of higher taxation or lower government spending on other services. Attracting greater private sector investment in appropriate circumstances will drive efficiencies in building and operating infrastructure and help reduce the call on government resources, allowing scarce public funds to be focused on delivering essential services the private sector cannot.

To leverage private investment, the Government is prepared to use alternative financing arrangements to complement traditional grant funding. These arrangements could include the provision of concessional loans, guarantees, equity investments, phased grants and other targeted payments. These mechanisms will be considered on a case-by-case basis. An example of this approach is the Government's \$2 billion concessional loan to accelerate delivery of the second stage of the WestConnex project in New South Wales.

Privatising mature assets is another way to encourage private sector involvement. It is estimated that more than \$100 billion of commercially suitable infrastructure assets sit within the infrastructure portfolios of the various levels of government in Australia, including transport, water and energy services (Infrastructure Australia, 2012). As noted earlier, the Government's \$5 billion Asset Recycling Initiative will provide incentives for States and Territories to privatise State owned assets. The Government will also carefully assess the merits and scope for privatising Commonwealth infrastructure assets, and/or the use of capital recycling (that is, selling or leasing commercially viable public assets to the private sector and reinvesting proceeds in new infrastructure) to help free up funds and create opportunities for Australian and foreign investors to invest in mature government assets.

The Government will look for opportunities to promote the appropriate use of user charging which can help fund new infrastructure, promote 'unsolicited bids' for new infrastructure and create greater visibility of future infrastructure needs through Infrastructure Australia's 15 year infrastructure plan. In addition, we have appointed to Austrade a Senior Investment Specialist with expertise in public-private partnerships to facilitate investment by foreign construction companies, financiers and sovereign wealth funds into Australian infrastructure. One of five to be appointed in Austrade, this Senior Investment Specialist will work closely with States and Territories as well as Commonwealth government agencies responsible for infrastructure development.

## AMBITION 4:

### INDUSTRY POLICY THAT FOSTERS INNOVATION AND ENTREPRENEURSHIP

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The Government is reshaping industry policy and focusing our research spending to stimulate innovation and entrepreneurship, improve competitiveness, and create new job opportunities for Australians.

Industry policy will seek to capitalise on Australia's strengths, in contrast to past approaches that supported industries that proved to be uncompetitive. The Government will no longer borrow money to give to big business, whether to prop up failing businesses or to compensate for bad taxes, such as the Carbon Tax. In the 2014-15 Budget, the Government announced the end of decades of special assistance for the automotive and textile, clothing and footwear manufacturing sectors. The Government intends to foster excellence, not entrench dependence, and to tailor industry policy to help capitalise on emerging opportunities.

The broadly-based reforms of our first three ambitions focus on improving the general business environment and will remain the mainstays of efforts to lift competitiveness. However, we believe the Government also has a facilitation and coordination role so businesses can take better advantage of quickly evolving opportunities.

Government support can help businesses to build the skills and connections they need to grow, by overcoming the difficulties some businesses face in developing new capabilities by themselves. For example, small and medium enterprises face challenges in obtaining useful information about overseas markets and about the detailed requirements to sell into global supply chains. It is often not a lack of information; it is finding the right information and separating the wheat from the chaff that takes time.

Specialised government agencies such as the Government's new Single Business Service and

#### Companies do the hard yards for success after government assists with early hurdles

Narrowcasters, an audio tour company, produces multilingual, interactive audio guides and apps for tourist attractions including museums, galleries, zoos and palaces. Narrowcasters received support from Austrade in India to identify and facilitate meetings with key Government officials and business contacts. But success ultimately required hard work, networking and knowing the market. Founder and Director, Penny Street, says 'being the first audio tour company in India didn't mean we enjoyed instant success'. The company researched the country's most visited sites and made the case for how an audio guide could add value to the experience of visitors. In India, Narrowcasters operates audio tours in 28 languages, and have been heard by 5 million visitors over the last 12 years.

Austrade provide reliable information about markets, technology and business models to small and medium enterprises, accelerating industry growth and job creation. Much of this information is akin to a public good, where its use by one enterprise does not preclude use by another. This could cause it to be under-supplied and under-utilised without effective government action.

The Government has already taken significant steps to overhaul its approach to industry assistance, focusing on the way business connects with government and the services that government offers businesses.

The Government is working to streamline access to essential information for all Australian businesses, instead of generating a myriad of services and access points. Delivered through an improved [business.gov.au](http://business.gov.au) website and hotline, the new Single Business Service will enable businesses of all sizes to efficiently find the information and services they require. This includes information on regulations in Australia and overseas, information about market opportunities flowing from free trade agreements and insights into business improvement strategies.

The 2014-15 Budget also contained new programmes to help established businesses grow and new businesses establish themselves in the marketplace, and to help businesses train staff with the skills they need.

The \$484.2 million Entrepreneurs' Infrastructure Programme, which includes an allocation of \$92.4 million for the Single Business Service initiative, will support the commercialisation of good ideas and lift the capability of businesses to capitalise on emerging opportunities. The aims of the Programme are consistent with the Chief Scientist's recent call to support the translation of STEM discoveries through readily accessible mechanisms for industry to link to STEM professionals. The Programme, which will be delivered through the Single Business Service, will:

- provide market and industry information, including business management advice from experienced private sector experts;
- help small and medium businesses become more competitive by working with the research sector to develop new ideas with commercial potential, as well as to help identify any knowledge gaps that are preventing business growth;
- provide support of up to \$50,000 for small and medium enterprises to engage university or science agency (e.g. CSIRO) researchers on specific projects;
- help start-ups commercialise their good ideas with advice from experienced entrepreneurs to facilitate connections with customers and investors; and
- offer funding, on a highly competitive basis, to support activities such as proof of concept and prototyping.

As part of the 2014-15 Budget, the Government announced it will establish a Medical Research Future Fund from 1 January 2015. All savings from health reforms announced in the 2014-15 Budget will be reinvested in the Fund until its balance reaches \$20 billion. This investment will ensure Australia can continue to advance world leading medical research projects and attract and retain first class researchers. The Fund will support vital medical research which will benefit all Australians either directly through improved health, or indirectly by supporting improved productivity and economic growth.

Upgrading the skills of all types of workers, including managers, is central to firm performance in knowledge-based economies. The quality of management is particularly important to enable quick adaption to evolving markets and changing circumstances. In this regard, the Government will provide \$476 million over four years to establish the Industry Skills Fund from 1 January 2015. This will support the training needs of small to medium enterprises that cannot be readily met by the existing national training system. The Fund will prioritise assistance to SMEs to position themselves to take advantage of new technology, innovative work practices, new and emerging opportunities, opening export markets and emerging economies. Larger companies may apply to access the Fund, but will be expected to make greater contributions towards the cost of training. Although the Fund will not exclusively target the following industries, the Government has identified immediate priority areas, including: food and agribusiness; mining equipment, technology and services; medical technologies and pharmaceuticals; oil and gas; and advanced manufacturing. The Industry Skills Fund will be complemented by the Trade Support Loans Programme, which will provide apprentices with financial assistance of up to \$20,000 over the life of their apprenticeship.

The Government is also helping Australian businesses develop international markets and win productive foreign direct investment. The Government is taking a Team Australia approach to support trade and investment through leadership of trade missions by the Prime Minister

#### **Innovative technologies help Tasmania's AQ1 Systems compete in the world**

Specialising in optical and acoustic sensing technology, Tasmania's AQ1 Systems is the world's leading supplier of sensor based feeding control technology for aquaculture. Aquaculture produces more than half the seafood the world consumes, and feed accounts for up to 60 per cent of aquaculture production costs. AQ1's innovative technologies have been combined to create a feeding system that understands fish and shrimp feeding activity and releases the exact amount of feed they require 24 hours a day without wastage. AQ1's technology replaces labour-intensive feeding methods on farms and is the result of the firm's long term commitment to research and development. Farmers deploying the system are recording big productivity gains and receiving higher prices for their product due to early harvest and consistently higher quality.

and senior Cabinet Ministers to priority markets. It provided the Export Finance and Insurance Corporation (EFIC) with an additional \$200 million in capital in the 2014-15 Budget and is refocusing EFIC to increase its capacity to finance small and medium enterprises. It also boosted Export Market Development Grants by \$50 million, which will help small and medium enterprises increase exports. EFIC provides finance and insurance solutions to assist Australian exporters overcome financial barriers when growing their business overseas, by helping successful businesses finance export trade or overseas investments where their bank is unable to provide all the support they need.

In addition, the Government has established the \$50 million Manufacturing Transition Programme to assist Australian manufacturers shift to higher value activities and improve competitiveness. The Programme offers grants for manufacturers that invest in projects to expand or transition into higher value or knowledge based manufacturing activities. Applications for the first round of the Programme opened on 1 September 2014.

In response to announcements of the closure of automotive manufacturing in Australia by 2017, the Government also established a \$155 million Growth Fund. The Fund will assist automotive employees to have their skills recognised and provide training for new jobs, while they are still employed; provide career advice and assist automotive employees to secure new jobs; assist automotive supply chain firms capable of diversifying to enter new markets; accelerate private sector investment in high value non-automotive manufacturing sectors in Victoria and South Australia; and support investment in non-manufacturing opportunities in affected regions.

## Further proposals

### Proposal 13: Industry Growth Centres

Australian businesses have demonstrated that they can succeed on the world stage and, with the right enabling environment, can be world leaders. Backing our competitive strengths and building on the Entrepreneurs' Infrastructure Programme, the Government intends to create Industry Growth Centres in five promising industries at a cost of \$188.5 million over four years.

The Centres will enable businesses with winning strategies to self select and grow, by removing impediments and unlocking potential at the industry level. The Centres will encourage organisations to work closely together to unlock commercial opportunities and reduce risk. Among other things, the Centres will encourage businesses in these industries to form commercial research and development partnerships with each other, and with the research sector, which international evidence shows occurs at a significantly lower rate in Australia than in other OECD countries (OECD, 2013).

The Industry Growth Centres model is based on Australian and overseas experience, including the United States' Small Business Administration's Regional Cluster Initiative, the Canadian Business-led Networks of Centres of Excellence and the United Kingdom's Catapult Centres.

The Minister for Industry will seek expressions of interest from business-led consortia to establish five non-profit Industry Growth Centres in sectors where Australia has recognised competitive strengths. Subject to the quality of the expressions of interest, the five initial Centres will be in:

- food and agribusiness;
- mining equipment, technology and services;
- oil, gas and energy resources;
- medical technologies and pharmaceuticals; and
- advanced manufacturing.

The Centres will have the flexibility to provide services tailored to the needs of their industry. Broadly, the Centres will address sector-wide impediments to productivity and competitiveness by:

- developing and implementing a roadmap of priority actions to lift the competitiveness of the sector and inform Centre activities;

- taking practical steps with governments to improve the regulatory environment;
- facilitating new commercial partnerships through supporting industry-led projects between SMEs and large businesses, and with the research sector, to develop innovative products and services;
- enhancing businesses' ability to enter global value chains and improving workforce skills, building on the services available through the Entrepreneurs' Infrastructure Programme; and
- developing annual industry knowledge priorities to inform the research sector of industry needs and commercialisation opportunities.

Each of the five Centres will receive funding of up to \$3.5 million per year. The Centres will be required to establish a plan to become self-sustaining after four years and the Government will look to establish further Centres if the programme is successful.

Each Centre will be able to apply for competitive grants from a \$63 million Growth Centre Project Fund. Projects would require a minimum matched contribution from industry participants, and be required to have significant sector-wide impact. The Growth Centre Project Fund will support large-scale projects by groups of businesses, such as conducting research into Asian consumer preferences or improving supply chain integration between a major company and its suppliers.

In addition, businesses will be eligible to seek support for high potential projects to prove market viability, attract private sector investment and bring new ideas to market. This will address the lack of early stage finance for commercialisation. For example, we have developed a risk capital market for smaller mining companies based on a history of success and well understood risk

### How a Growth Centre could assist the food industry

Significant growth in processed food exports requires many changes by individual firms across the supply chain and by the various parts of government that provide research funding, infrastructure and the regulatory framework. Some of these changes will happen through the actions of individual entrepreneurs, but growth can be accelerated by concerted action.

A Food and Agribusiness Industry Growth Centre could help small and medium food processing businesses to research Asian consumer preferences about taste, texture and packaging. Currently, this sort of information is generally the preserve of multinationals. Food scientists would help small and medium enterprises to develop the desired product characteristics. Specialist advice on intellectual property protection, marketing and exporting in differing Asian markets would help small and medium enterprises succeed in these markets. In addition, the Centre would work with regulators to improve the efficiency of the regulatory framework, while ensuring it maintains and supports Australia's excellent reputation for safe food production, which is an important source of competitive advantage.

assessment criteria, paths to commercialisation and a large pool of experienced participants in the resources sector. However, we have not developed a similar market for technology-based industries, like biomedical and pharmaceuticals, despite our excellent and substantial scientific research output (Pollenzier, From Little Things, Deloitte, 2012). The Government will provide \$60 million through the Entrepreneurs' Infrastructure Programme to co-fund commercialisation opportunities. The Government's investment will be no more than 50 per cent and up to \$1 million in project funding. Funding will be provided on a competitive basis.

Success of the Centres will be measured by increased investment, employment, productivity and sales, reductions in red tape, improved industry-research links and more businesses integrated into international value chains.

The Minister for Industry will consult industry on the implementation of the Industry Growth Centres. The Growth Centres will be rolled out from early 2015.

#### **Proposal 14: Enhancing commercial returns from research**

The Government will consult with industry and the research community to develop and implement a comprehensive strategy to better translate research into commercial outcomes. This will help drive innovation in Australia, grow successful businesses and create the jobs of the future for Australians. It aligns with the Government's measures to reform the higher education sector, and our focus on realising the potential of health research.

Australia performs well on measures of research excellence, which is an important factor for achieving research translation. With more than 3.5 per cent of the world's top highly cited international research publications involving Australian researchers, we punch above our weight relative to our proportion of the world's population (Department of Industry, 2013a).

However, we face challenges in turning ideas and research into commercial results. According to the Global Innovation Index, we are 81st out of 143 countries on how effectively we get returns from research, ideas and institutions (Cornell University et al, 2014). Australia ranks last out of the 33 countries listed by the OECD on the proportion of businesses who collaborate with research institutions on innovation (Chart 11).

Chart 11: Firms collaborating with research institutions



Data source: OECD, 2013.

The Government will align Australia's research and development efforts with our comparative advantages by setting research priorities and will foster collaboration between research and business.

To this end, the Government will reform the Prime Minister's Science Engineering and Innovation Council, reinvigorating and strengthening it as the Commonwealth Science Council, a preeminent body charged with advising the Government on important science and technology issues facing Australia. It will be chaired by the Prime Minister and the Minister for Industry will be Deputy Chair. The Ministers for Education and Health and the Chief Scientist will also be standing members with other Ministers co-opted as required. To drive home the need for industry and science to collaborate further to boost Australia's competitiveness, the Council includes five eminent scientists or researchers and five business leaders.

The Council will meet twice per year and provide advice to the Government on its overall approach to investment in science and research, areas of national strength and future need, and opportunities to improve the impact, focus, and quality of Australia's investment. It will also focus on improving collaboration and commercialisation of Australia's high quality science and research output, including through improving connections between government, research organisations, universities and businesses. As one of its first tasks, it will consider proposals made by the Chief Scientist in his recent report 'STEM: Australia's future'.

The Government will also consult with research and industry to identify, by the end of 2014, the policy and programme changes necessary to ensure our research effort is addressing the key national priorities and supporting the translation of research into commercial outcomes, including:



- adjusting tax and research funding mechanisms to provide greater incentives for collaboration between research and industry;
- supporting the provision and maintenance of world-class research infrastructure to attract the world's best researchers and facilitate collaboration with industry;
- promoting intellectual property arrangements that facilitate, rather than frustrate, collaboration and commercialisation of ideas; and
- ensuring research training prepares researchers to work with industry and bring their ideas to market.

In addition, to better understand future developments in this area, the Government will develop and publish measures of collaboration and commercialisation outcomes to drive performance.

Further details of the Government's proposed strategy are set out in a Consultation Paper being released by the Ministers for Education and Industry. The Government welcomes the input of the research sector and industry on these key issues and invites submissions on the Consultation Paper by the end of November 2014. Details of how to make a submission are addressed in the Consultation Paper.

### **Proposal 15: Improve taxation arrangements for Employee Share Schemes**

Job creation and productivity growth don't just happen in a vacuum, they are supported by entrepreneurship and a flourishing start-up community (Decker et al, 2014). Indeed, many of the new jobs generated in OECD economies since the global financial crisis were in small, young businesses (Criscuolo et al, 2014).

#### **An Employee Share Scheme**

Where an employer provides a financial interest in their company (usually through shares or options) to their employee(s) in relation to their employment.

Entrepreneurs and start-ups are important for testing new ideas, developing new products and implementing new business models (Carlino & Kerr, 2014), and international research suggests that companies in which employees have an ownership interest are more productive than those that do not (Employee Ownership Australia and New Zealand, 2014).

Employee Share Schemes (ESS) are used in many countries to attract and retain high quality staff to innovative start-up companies by providing them with a financial share of the potential upside of success of the company. This is usually provided either by way of shares in the company a person works for (that is, an actual ownership share in the company) or as options (a right to purchase shares at some future point, at a 'strike price' set out in an options contract).

Under the general income tax law, if an employee is provided with shares or options through an ESS, any discount that the employee receives by acquiring the shares or options, relative to the market price, is a benefit relating to employment and so would usually be considered income of the employee.

Prior to 2009, employees could choose to have qualifying ESS shares or options taxed up-front or at a deferred taxing point (subject to certain conditions).

In 2009, changes were made to how the ESS arrangements are taxed. Shares provided under an ESS are currently taxed up-front (when provided to the employee) unless there is a risk that the employee will forfeit the shares, in which case taxation is deferred until the shares 'vest' (that is, are provided unconditionally to the employee). Options provided under an ESS are generally taxed when they 'vest', rather than when the employee decides to exercise the options to purchase shares in the company, as was previously the case. The tax treatment of options is particularly problematic because it taxes employees before they have the opportunity to convert their options to shares and realise any actual gain by selling the underlying shares.

The 2009 changes effectively ended the provision of ESS options to employees, particularly by start-ups, and stakeholders have noted that the changes detracted from the goal of commercialising good ideas in Australia. Successful entrepreneurs also stated that the changes have reduced their ability to use ESS as a key remuneration tool to find talent in Australia, which has, in turn, contributed to driving entrepreneurs offshore (Farquhar, 2014).

The difficulties that start-ups face in administering ESS and problems around the taxation of options make it clear that the tax treatment of ESS needs to improve.

As a start, the Government will reverse the changes made in 2009 to the taxing point for options. This change will apply to all companies and will mean that discounted options are generally taxed when they are exercised (converted to shares), rather than when the employee receives the options. This will defer the taxing point to a point at which most employees can take some practical action to realise the benefits of the underlying share.

The Government also recognises the importance of giving start-ups the best chance of succeeding and keeping Australian companies competitive in an international economy, which includes giving entrepreneurial start-ups the chance to employ the best people. In addition to the changes being made for all companies, eligible start-ups will be able to offer ESS shares and options to their employees at a small discount, and have that discount exempt from up-front taxation, as long as the shares or options are held by the employee for at least three years. Tax on the discount provided by the employer may be deferred or exempt depending on whether the employee receives options or shares. Criteria will define eligibility for this concessional treatment, including the company having aggregate turnover of not more than \$50 million, being unlisted and being incorporated for less than 10 years.

Furthermore, to give start-ups more time to be competitive and succeed, the Government will extend the maximum time for tax deferral from seven years to 15 years. The Government will also update the 'safe harbour' valuation tables, which are used by companies to value their options, so they reflect current market conditions. The integrity provisions introduced in 2009 and the \$1,000 up-front tax concession for employees who earn less than \$180,000 per year will be retained.

This initiative will cost \$200 million over four years.

Companies in the early stages of development may face problems with valuation and liquidity. The Australian Taxation Office will work with industry to develop and approve new standardised documentation that streamlines the process of establishing and maintaining an ESS. The Australian Securities and Investment Commission will also be consulted, given its oversight of disclosure documents involving the offer of financial products (like options and shares).

The Treasurer will consult with industry to ensure that the draft legislation delivers the intended outcome, with the legislation proposed to come into effect on 1 July 2015.

### Example: Making it easier for employees to have a stake in a business

The owner of start-up XYZ Pty Ltd wants to give his six employees a stake in the future growth of the business, so he offers them free options to buy shares in his company at a future date, at a set price called the exercise price. He wants to do this so the employees have a strong incentive to help the business grow. They will profit from growth in the business to the extent that the value of the shares is greater than the exercise price.

Under current taxation rules, and assuming there is no risk of forfeiting the options, if the employees accept the options then they will have to *pay tax on the free options in the income year they are provided the options*, even though it may be several years before they convert the options into actual shares in the company. This means the employees would have to pay tax before they have the ability to get a cash return by selling shares. This situation has discouraged the provision of options under employee share schemes, to the detriment of productivity growth and innovation.

To encourage entrepreneurship and small business growth, the Government's changes will mean, under certain conditions, the employees of eligible small start-up businesses will not pay tax on any discount when the options are provided to them – they will only *pay tax on any discount and capital gains once they sell the shares*. One of the main conditions is that the options are not 'in the money', that is, the market value of the shares at the time the options are issued is less than the price (exercise price) at which the options can be converted into shares.

For employees of businesses that are not eligible for the start-up concession, the *tax can instead be due when the options are converted into shares (depending on the scheme rules)*, which is still a benefit compared to the current situation.

The Government will also allow, under certain conditions, start-up businesses to offer shares at a small discount to employees – and that discount would be tax-free.

More details and examples are available in the Employee Share Schemes fact sheet attached to the related joint press release.

## ESS Timeline\*

Before 2009	Between 2009 and now	Going forward - all companies
Default position was up-front taxation for both shares and options.	Default position is up-front taxation for both shares and options.	Default position will remain up-front taxation for both shares and options.
For qualifying** shares and options, subject to certain conditions, the employee could choose between up-front and deferred taxation.	Deferral of tax is limited to schemes where there is a risk of the employee forfeiting the shares or options, and schemes provided through salary sacrifice (up to \$5,000, and subject to conditions).	However, option schemes will be able to access deferred taxation treatment more easily, without the options necessarily being at risk of forfeiture.
For options, a deferred taxation point occurred when the employee exercised the options by converting the options into shares.	The qualifying conditions** are also applied to access deferral arrangements.	Further, for options, the deferred taxing point at vesting will be moved back to when the employee exercises the options.
	For options, a deferred taxation point occurs when there is no risk of forfeiture or when any restrictions on the sale or exercise of the options are lifted (vesting point).	<div> <b>Going forward - start-ups only</b> </div> Options and shares that are provided at a small discount by eligible start-ups will not be subject to up-front taxation.

*\*Not intended to exhaustively demonstrate all changes to ESS taxation over the 3 periods.*

*\*\*Conditions apply to determine whether an ESS is 'qualifying', including that the company offering the ESS is the recipient's employer (or employer's holding company) and that the employee not hold more than a 5 per cent interest (or 5 per cent of voting rights) in the company.*

### **Proposal 16: Crowd-sourced equity funding**

The internet has facilitated the development of new fund raising markets which can turn clever ideas into new businesses. Crowd-sourced equity funding (CSEF) has the potential to act as an alternative to traditional bank debt funding for Australian businesses, including small business. Several countries, including the United Kingdom and New Zealand, have implemented crowd-sourced equity funding regulatory regimes.

A government advisory body with strong financial market experience released a report into the regulation of CSEF in May 2014. The Corporations and Markets Advisory Committee (CAMAC) found that the current law makes it difficult for companies to use CSEF to raise crucial initial 'seed' or early stage capital to help innovative start ups and other small enterprises develop. CAMAC (2014) recommended an alternative regulatory framework be developed which could boost competitiveness and innovation by increasing the funding options available to entrepreneurs. The Chief Scientist has also recommended the Government facilitate access to novel sources of equity funding, including crowd funding, in order to lift the capacity of Australian SMEs to break into global value chains.

The Assistant Treasurer will consult widely on a regulatory framework to facilitate crowd sourced equity funding, building on CAMAC's report. The consultation process will seek to ensure that any regulatory framework effectively balances the aims of reducing compliance costs, including for small businesses, and maintaining an appropriate level of investor protection.

### **Proposal 17: Small Business Engagement Principles**

There are more than 2 million small businesses in Australia, employing over 4.5 million Australians and contributing around a third of private sector production (Department of Industry, Innovation, Science, Research and Tertiary Education, 2012). Many are single person businesses and there are also over 750,000 businesses employing one to 19 people. Small business covers the full gamut of activities from retailing, hospitality and personal services through to small building, fabrication and trade-based firms, and advanced activities such as software development and business consulting. Successful entrepreneurs often start small and then grow their businesses.

Small businesses have the advantage of being adaptable and flexible, able to exploit niche markets, develop and embrace new technologies or work practices, and respond profitably to economic changes. Indeed, small businesses are ideal test beds for driving innovative ideas and processes, and often pioneer these before they spread more broadly through the economy. Enabling small businesses to reach their potential will therefore promote Australia's competitiveness and prosperity.

At the same time, many small businesses suffer intrinsic disadvantages when compared to larger firms. Their scale means they can find it more difficult to access capital or carry and spread risks themselves, they can find it more difficult to attract and retain talented employees, and compliance burdens generally have a larger proportionate impact on small businesses. This is partly because small businesses have limited resources, knowledge and professional networks to draw on to understand and comply with regulatory impacts, and also because they have lower sales revenue over which to spread the 'fixed costs' of registration and compliance.

The Competitiveness Agenda is designed to provide a competitive environment in which any business, whether big or small, can succeed on its intrinsic merits, and the broadly-based reforms of our first three ambitions strive towards this end. Small businesses will nevertheless gain proportionally greater benefits given that they are particularly vulnerable to the deadening effects of excessive red tape and other impediments to entrepreneurship.

The Government is also adopting a set of Small Business Engagement Principles to assist government agencies to engage effectively with small business to identify opportunities to reduce red tape and to develop initiatives to enable small business to thrive. By effectively engaging with the small business community early in the policy development process, opportunities to reduce over-burdensome regulations and imposts will be identified and government agencies will better understand the impact policies and programmes have on the day-to-day operations of small businesses. Use of the Principles will ensure small business interests are promoted and engagement strategies are consistent across government.

Ministers will be asked to implement and act upon the following principles:

- actively identify ways to eliminate unnecessary red tape in all policies, programmes and initiatives that affect small business;
- consult and collaborate with small business early and throughout the policy making and programme design process;
- make information targeted to small business available through the Government's primary small business communication channels;
- strive to adopt whole-of-government small business solutions to simplify the way business interacts with Government online; and
- communicate with small business in clear, simple language and present information in an accessible format.

PART C:  
IMPLEMENTING OUR  
ECONOMIC ACTION STRATEGY

# Implementing our Economic Action Strategy

The Industry Innovation and Competitiveness Agenda is just one part of the Government's Economic Action Strategy. The Strategy is about strengthening the economy and delivering benefits to the community, including through less reliance on government, freeing up business and more long-term investment. Standing still on economic reform is not a viable option. Improving Australia's competitiveness is essential if we are to sustain our economic performance as the population ages and the mining investment boom fades. Australia needs to address the competitiveness challenge if we are to successfully grasp the opportunities presented by the economic strength of Asia and integration of the global economy.

While the Economic Action Strategy is wide-ranging, the Government is taking a methodical and purposeful approach to get reform right. The Government has also commissioned a number of significant reviews, recognising that while the need for reform is great, reforms must be measured, transparent and predictable if they are to be sustained and supported by the community. Together with the Competitiveness Agenda reforms, this represents a comprehensive and sustained approach to secure Australia's future.

A key element of our Economic Action Strategy was the 2014-15 Budget which was designed to stop and then reverse the unsustainable growth in debt. The Government will continue the job of fixing the Budget because, without action, Australia faces a decade of deficits and debt growing to \$667 billion by 2023-24. This equates to nearly \$25,000 for every person in Australia, and would see the Government spending more on interest than on aged care by 2023-24 (Commonwealth of Australia, 2014b). This is vital to restore business and investor confidence that the Government will live within its means without debt and taxes spiralling. Debt cannot grow forever; it will have to be repaid by future taxes. The Budget also put in place the building blocks needed for our future prosperity by prioritising investment over immediate consumption. The Government is deregulating the higher education sector, and funding major projects and providing incentives to ensure Australia has the economic infrastructure it needs for the future. The Government has also abolished the Carbon Tax and the Minerals Resource Rent Tax, and is considering the independent review of the Renewable Energy Target. These reforms are just the beginning.

The Government is removing barriers to business and jobs growth. Red tape is being cut through parliamentary repeal days, auditing Commonwealth regulations and changing the culture in regulatory authorities. To support open trade and investment, the Government has successfully concluded trade agreement negotiations with both Japan and South Korea and will continue to pursue further agreements with major trading partners, such as China. This will allow businesses to have access to lower cost inputs and open up international markets for our exporters.

Many of the drivers of competitiveness are being examined through a range of reviews including the Competition Policy Review and Financial System Inquiry. Over the next year, these two reviews will deliver the road maps for the Government to:

- increase domestic and international competition to encourage greater quality and lower prices for the goods and services businesses and consumers depend on; and
- foster an efficient, competitive and flexible financial system, consistent with stability, prudence and public confidence.

The Government has also commissioned White Papers on Energy, Agricultural Competitiveness and Developing Northern Australia. These White Papers will set out practical steps to boost growth and prosperity.

On the big issues for competition policy, workplace relations and taxation, the Government has committed to major reviews. To this end, the Productivity Commission will be asked to undertake a comprehensive review of the operation and impact of Australia's workplace relations framework. The White Paper on the Reform of Australia's Tax System, together with the White Paper on Reform of the Federation, will enable an open discussion about the future of Australia's tax system, with a focus on simplifying the tax system, boosting productivity and international competitiveness, and improving incentives to work and save.

## **Implementing the Competitiveness Agenda**

The Competitiveness Agenda focuses on what we can do now to improve competitiveness and start creating the jobs of the future in the industries of the future. These measures build on the Government's efforts to date by:

- reducing business costs;
- creating a more skilled labour force;
- building economic infrastructure to drive productivity; and
- fostering innovation and entrepreneurship in our industries.

The Government will hold a series of stakeholder roundtables on the Competitiveness Agenda, around the country, over the coming months. Each roundtable will focus on one of these four ambitions.

In addition to these broader consultations, the Government will undertake more targeted consultations on many of the specific proposals. Some of the Agenda's initiatives have already undergone extensive consultation and development and will only require fine-tuning as they are implemented; others will require significant further consultation. Indicative consultation pathways and timeframes for the proposals are outlined in Table 3.

Lifting competitiveness will be an ongoing challenge. The Government's aim is to progressively finalise and announce additional competitiveness initiatives, consistent with a methodical and purposeful approach to governing. Any further reforms to promote the Agenda's four ambitions will draw on ongoing consultation with business and lessons from the implementation of the initial reforms. In developing and implementing other key components of the Economic Action Strategy, the Government will be mindful of how these can help improve the competitiveness of Australian businesses. Each measure will be evaluated in the future to assess how it is achieving its objectives.

Table 3: Consultation pathways

Reform	Consultation pathway	Projected timeframe
<b>A lower cost, business friendly environment</b>		
<b>1. Accepting trusted international standards and risk assessments</b>	The Parliamentary Secretary to the Prime Minister will continue consultations with industry and Ministers on opportunities to reform. The Government will use the <a href="http://cuttingredtape.gov.au">cuttingredtape.gov.au</a> website to invite submissions to identify examples of divergence from international standards.	Ongoing
<b>1a. Streamlining certification of medical devices</b>	The Minister for Health will oversee stakeholder consultations to support implementation of this reform.	Late 2014
<b>1b. Streamlining industrial chemicals assessments</b>	The Department of Health has conducted broad industry consultation as part of the review of NICNAS. Ongoing targeted consultation to be undertaken.	Late 2014
<b>2. Shifting the culture of regulation</b>	The Department of the Prime Minister and Cabinet has consulted regulators and relevant stakeholders on the Regulator Performance Framework. The final Framework is expected to be released as part of 2014 Spring Repeal Day.	October 2014
<b>3. Expand access to the Commonwealth workers' compensation scheme</b>	The Minister for Employment will oversee further consultations to identify the viability of and best way to expand access to the Comcare workers' compensation and work health safety and laws to eligible private employers as premium payers.	Late 2014 – early 2015

Reform	Consultation pathway	Projected timeframe
<b>4. Streamline construction regulation</b>	The Minister for Industry will lead consultations with industry and State governments to identify options to limit local government variations to building and construction regulations.	Late 2014 – early 2015
<b>5. Reducing superannuation compliance burden</b>	The Government is currently analysing options brought forward during consultation with a wide range of stakeholders to better understand the compliance cost concerns of small business.	Late 2014
<b>6. Trusted Trader Programme</b>	The Australian Customs and Border Protection Service, supported by a dedicated Industry Advisory Group, will conduct stakeholder consultations to co-design the proposed form of Australia's Trusted Trader Programme.	Mid 2014 – late 2014
<b>7. Removing barriers to professional services investment</b>	The Department of Foreign Affairs and Trade will engage with relevant State and Territory governments and the Law Council of Australia to encourage the removal of outstanding restrictions to professional service providers.	Late 2014 – early 2015
<b>8. Examine coastal shipping regulations</b>	The Government is currently analysing options brought forward during consultation with a wide range of stakeholders to better understand the impact of coastal shipping regulations.	2015

Reform	Consultation pathway	Projected timeframe
<b>A more skilled labour force</b>		
<b>9. Increasing the focus on STEM and innovation in schools</b>	The Department of Education will consult stakeholders to support implementation of these reforms.	Late 2014 – mid 2015
<b>10. Improving the Vocational Education and Training system</b>	The Government's VET Reform Taskforce has undertaken significant stakeholder consultation throughout 2014. The Government will continue stakeholder consultation on proposed reforms to the VET sector.	2014 – mid 2015
<b>11. Liberalising the subclass 457 visa programme</b>	The Minister and Assistant Minister for Immigration will consult stakeholders on changes to 457 visas and implementation of the 457 Integrity Review.	Late 2014
<b>12. Expanding the investment visa programme</b>	The Minister for Trade and Investment and Assistant Minister for Immigration will consult stakeholders on the implementation of the visa enhancements.	Late 2014

Reform	Consultation pathway	Projected timeframe
<b>Industry policy that fosters innovation and entrepreneurship</b>		
<b>13. Establishing Industry Growth Centres</b>	The Minister for Industry will consult with stakeholders on the implementation of Industry Growth Centres.	Late 2014
<b>14. Boost commercial returns from research</b>	The Ministers for Industry and Education, supported by the new Commonwealth Science Council, will lead consultations with the education and research sectors to refine the implementation of this proposal.	Late 2014 – late 2015
<b>15. Improve taxation arrangements for Employee Share Schemes</b>	The Department of the Treasury will conduct stakeholder engagement to refine legislation prior to introduction.	Late 2014 – early 2015
<b>16. Crowd-sourced equity funding framework</b>	The Department of the Treasury will conduct stakeholder engagement on a potential crowd sourced equity funding regulatory framework.	Late 2014 – early 2015
<b>17. Small business engagement principles</b>	The Minister for Small Business will continue to engage his Ministerial Advisory Council on the application of the principles.	Ongoing

# ABBREVIATIONS AND REFERENCES

# Abbreviations

ABARES	Australian Bureau of Agricultural and Resource Economics and Sciences
ABCC	Australian Building and Construction Commission
ABS	Australia Bureau of Statistics
AIG	Australian Industry Group
ASQA	Australian Skills Quality Authority
BAS	Business Activity Statement
BCA	Business Council Australia
BITRE	Bureau of Infrastructure, Transport and Regional Economics
BREE	Bureau of Resources and Energy Economics
CAMAC	Corporations and Markets Advisory Committee
COAG	Council of Australian Governments
CSEF	Crowd-sourced Equity Funding
CSIRO	Commonwealth Scientific and Industrial Research Organisation
EFIC	Export Finance and Insurance Corporation
ESS	Employee Share Schemes
FWBC	Fair Work Building and Construction
GDP	Gross Domestic Product
IFA	Individual Flexibility Arrangements
IIASA	International Institute of Applied Systems Analysis
ILO	International Labour Organization
IMD	Institute of Management Development
IMF	International Monetary Fund

INSEAD	Institut Européen d'Administration des Affaires
KPMG	Klynveld Peat Marwick Goerdeler
LNG	Liquefied Natural Gas
PAYG	Pay as you go
NCC	National Construction Code
NCVER	National Centre for Vocational Education Research
NICNAS	National Industrial Chemicals Notification and Assessment Scheme
NOPSEMA	National Offshore Petroleum Safety and Environmental Management Authority
OECD	Organisation for Economic Co-operation and Development
PIV	Premium Investor visa
PPL	Paid Parental Leave
P-TECH	Pathways in Technology Early College High School
PwC	PricewaterhouseCoopers
QS	Quacquarelli Symonds
RBA	Reserve Bank of Australia
RTO	Registered Training Organisation
SIV	Significant Investor visa
SME	Small and Medium Enterprise
STEM	Science, technology, engineering and mathematics
VET	Vocational Education and Training
VID	Vienna Institute of Demography
WEF	World Economic Forum
WIPO	World Intellectual Property Organisation

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