



BUILDING DYNAMIC, COMPETITIVE INDUSTRIES

March 2019



EXECUTIVE SUMMARY

Australian industry is diverse, strong and poised to pursue new opportunities through digitalization, innovation, participation in global markets and supply chains, and responses to the challenges of emissions reduction and reducing waste. At the same time, there is a clear role for public policy in developing our businesses - particularly our small and medium-sized businesses whether in new or traditional sectors and equipping them in raising their horizons and their competitiveness.

Ai Group maintains that Australian industry policy should have a positive, 21st century orientation. It should work, together with policy in education and training, to support a confident, dynamic and resilient private sector that not only builds on existing competitive advantages but is equipped to meet both the challenges and the opportunities presented by the transformational forces of globalisation, technological development and environmental protection.

The Federal Government can play valuable roles:

- In coordinating a broad and inclusive discussion of the future of industry;*
- Providing well-designed policies to improve business capabilities including in relation to the digitisation of commercial activity;*
- Facilitating greater opportunities and increased involvement in international trade by Australian businesses;*
- Ensuring that, in meeting Australia's Defence needs, full advantage is taken of the unique opportunity to grow competitive Australian industries and further connect them to global markets and supply chains;*
- Ensuring that Australia's innovation system is stable and effective in supporting business research and development, collaboration between business and Australia's research capabilities and supportive of the emergence of deeper markets for early-stage capital.*
- In cooperation with the states and territories, give particular attention to addressing the ongoing crisis facing our waste and recycling systems due, most immediately, to China's clampdown on the contaminated plastics we previously exported for processing; and*
- Incorporating the latest evidence and analysis into evolving strategies for growth and successful transitions of Australia's industry through a period of immense change.*

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The Entrepreneurs' Programme

At the federal level, the Entrepreneurs' Programme plays an important role in directly assisting transformation in key sectors. EP's success means that it should continue to scale up this successful program in line with business demand and economic opportunity.

EP has built up considerable recognition and it should retain its current branding. EP's sectoral coverage should stay broad, with construction remaining and energy expanded to cover cleantech. It would make sense to include businesses with prospects of successful transition to new fields, not just growth prospects within their current field.

Digitalisation, Digital Infrastructure and Cyber Security

Digitalisation is rapidly transforming practices across businesses and industries.

The bDigital service available to EP clients is valuable and should persist, but to improve capability beyond the scope of EP, the government should build on bDigital with a program targeted to large numbers of SMEs to provide information on successful adoption by businesses of digital technologies as well as advice on options for investments in digital capabilities.

Regular discussion of the future of industry between government and a wide array of stakeholders is essential to spur, inform and improve high quality industry policy. The Industry 4.0 Advanced Manufacturing Forum, chaired by Ai Group and bringing together stakeholders from industry, academia, unions and key institutions, is playing a valuable role and the Government should continue to engage with it through the Department of Industry, Innovation and Science.

A mix of communication infrastructure is critical to enable the growth of the digitally enabled economy, including the National Broadband Network (NBN), 5G mobile networks and a mix of other IoT communications platforms. Some of these technologies are growing fast and accommodating them (such as through lower regulatory barriers and increased regulatory flexibility) is challenging for slower-moving government and regulators.

While political visions of the NBN rollout and the future of nbnco remain heavily contested, it is essential that decisions about matters like the connection technology mix, the value of the network or whether and when to privatise are taken on the basis of wide consultation and careful consideration. The needs of businesses that still lack fast or reliable broadband need to be met. Despite recent activity, Australia remains far behind in global broadband speed rankings, and may be slipping further. The deployment of digital infrastructure needs continuing scrutiny against benchmarks including affordability, easing regional constraints, meeting business demand and maximising business benefits.

The Assistance and Access Act (also known as the Encryption Act) that was passed over widespread industry and community objections in late 2018 creates serious risks to Australians' cyber security and the reputation of Australian businesses that sell digitally-enabled products and services. Substantial amendments are needed as soon as possible to clarify the Act and limit its impact in the areas of greatest risk.

Evolving and growing cyber threats and their impact on businesses and the community are an ongoing concern. Existing initiatives such as AustCyber and the Australian Cyber Security Centre (ACSC) are positive, but contentious issues including the Encryption Act mentioned above and concerns about the security of public and private digital platforms highlight the need to review the National Cyber Security Strategy (previously revised and published in 2016) with input from all affected stakeholders. This may also include consideration of a new Ministerial portfolio on Cyber Security that takes a holistic view, has full responsibility for managing cyber security policy and can operate across relevant departments.

Industry Capability Networks

The Industry Capability Networks operated in each State are important resources and would benefit from a review to determine how to maximise their value through modernization, integration with widely used digital platforms and other means.

The former Industry Skills Fund, closed in 2016, should be replaced by a new program to bolster training and support services and foster the skills development that will support industry competitiveness and growth.

Trade

While global trade friction has grown, new trade agreements and the fuller use of existing agreements remain important to industry growth. Of the 51,992 Australian businesses directly exporting goods from their Australian base in 2016-17, 49% had fewer than 3 export transactions, 41% had between 3 and 50 export transactions and only 10% had more than 50 export transactions. The most problematic issue for Australian businesses wanting to export is Identifying markets and customers. Despite the advances in electronic communication and availability of market information, understanding how to find customers is still a significant barrier for many companies, but particularly SMEs, even if they are current exporters. To improve the prospects of the vast majority of Australian exporters the next Government should:

- Pursue new trade agreements where these are on balance in Australia’s national interest;
- Advocate for pro-business digital trade policies that protect international data (information) flows, limit data localisation rules and promote good data stewardship;
- Promote both outbound Australian investment in other countries, and the inclusion of reasonable and appropriate provisions for investor-state dispute settlement in trade agreements;
- Maintain and expand the successful Export Market Development Grants program;
- Resource Austrade appropriately so it has the skills and resources to support Australian companies to access global value chains and to invest abroad, including by increasing the availability of one-on-one support for new and emerging exporters;
- Provide Austrade with increased funding to expand the existing TradeStart footprint – to ensure that SME’s are better supported to compete in international markets.
- Maintain an anti-dumping system that is fair to all parties and is stable, reliable and transparent; and
- Strive for a more judicious and effective mix of standards and regulation in lifting public safety, consumer confidence and business performance.

Defence

Meeting Australia's Defence requires strong local industry capabilities and provides a unique opportunity to grow competitive Australian industries and further connect them to global markets and supply chains. To that end we recommend the next Government should:

- Maintain the Defence funding path as set out in over recent budgets, with an underlying commitment to grow towards two per cent of GDP by 2020-21;
- Continue robust implementation of Australian Industry Capability plans in major acquisition programs;
- Finalise and implement key supporting industry policies, including the Defence Sovereign Industrial Capability Priority implementation plans, the Defence Policy for Industry Participation and the Skilling and STEM strategy to support the training and skilling Australia's workforce to manage the ramp up of the defence industry; and
- Provide additional transparency of the Government's Defence investment plans through on-line access to the Integrated Investment Program.

Innovation

Innovation is critical to better outcomes for Australia's people, economy and environment, and essential to maintain and improve business competitiveness. The next Government should:

- Not proceed with the previously proposed stepping of the Research and Development Tax Incentive (R&DTI) rate based on research intensity, which would amount to a substantial across-the-board reduction in support for innovation and not provide meaningful incentives. Improved data analytics to assess the novelty of R&DTI claims would be a better way to focus the program;
- Commit to much-needed stability for the R&DTI and maintain a strong envelope for innovation support overall, including Cooperative Research Centres, Industry Growth Centres and broader research funding;
- Provide additional funding of Defence research and development and innovation programs to help boost the ADF's capability edge, including a review of the national security innovation system as a whole;

Lifting the frequency and quality of collaborative innovation between Australian businesses and our substantial capabilities in scientific research is essential to improve competitiveness and open new commercial opportunities. The next Government should:

- Continue and expand the Innovation Connections element of the Entrepreneurs' Programme;
- Consider wider access beyond EP to incentives for employment of recent STEM PhD graduates in innovation roles;
- Do not introduce a higher rate of R&DTI for collaboration until and unless the practical difficulties of assessing collaboration with sufficient rigour and minimal costs can be overcome;
- Promote case studies and best practices for collaboration to both business and researchers, including the benefits of cross-organisational teams and deeper 'stage zero' collaboration that starts from problem analysis rather than contracting out solution delivery;

- Assess the success of the Commonwealth’s efforts to link public sector research funding to industry collaboration and real-world impact, and refine the formulae and metrics if warranted in consultation with industry and the research community.

Standards and Regulation

Australia should strive for a more judicious and effective mix of standards and regulation in lifting public safety, consumer confidence and business performance.

There is considerable potential for the more effective use of consensus-developed standards in addressing a range of economic and social opportunities and challenges. In some cases standards can work alongside formal regulatory approaches (such as when standards are called up in regulatory instruments) and at other times as a lower-cost substitute for formal regulation.

There has been a tendency for government to move away from the use of Australian standards. While international consistency and efficiency have clear value, international standards development processes are often unduly influenced by particular interests without adequate opportunities for Australian input reflecting domestic expertise, local conditions and needs. The Australian Government should continue to help fund Australian involvement in international standards development and it should ensure that an Australian filter is applied before the adoption of international standards in Australia.

There is also a disturbing tendency for Australian government agencies to forego the well-regarded model of the transparent, consensus approach to the development of standards in favour of rules and regulations developed by the agencies themselves. Government agencies typically do not have the technical expertise, the practical experience or the expertise in effective and structured consultation with industry and others in the community. The result is often sub-standard and government should be more willing to back and indeed expediate the use of the more transparent consensus standards development model.

In relation to regulation in general, the next government should reinvigorate best practice regulation initiatives including by extending the focus into developing greater understanding of best practice regulator behaviors and cultures.

Non-conforming Building Products

Australia’s building and construction regulatory frameworks are weak and inadequately enforced to ensure that products sold to industry and the public meet applicable standards and are fit for purpose. This has been a source of increasing disquiet, particularly given high profile failures in relation to the construction sector. Since the Grenfell fire the Government’s focus has moved away from non-conforming product to non-complying product; however, as the Senate inquiry into non-conforming product highlights this remains an issue in the building sector. The Commonwealth needs to maintain a leadership role and to coordinate action with the States and industry to achieve safer outcomes for the public and a level playing field for suppliers who do the right thing.

Waste

Waste reduction, materials efficiency and the ‘circular economy’ present important opportunities over the long term, while Australia also faces an ongoing crisis as our waste and recycling systems are roiled by China’s clampdown on the contaminated plastics we previously exported for processing. Ambitious National Waste Policy targets for improved waste outcomes need to be supported by effective policies and investments, including:

- Support for innovation and commercialisation of technology options to close materials loops and utilise waste products, and improved technologies for automated waste sorting;

- A coordinated push to revise standards at all levels to encourage, rather than discouraging, the use of recycled content which performs adequately;
- Improved education of the public to encourage better sorting and reduced contamination; and
- Adopting effective and efficient measures to address waste-related externalities.

Industry Transitions

From digitalisation to decarbonisation, major waves of change bring novel and transitional challenges along with the opportunity to increase shared national prosperity. New and emerging technologies such as AI, augmented reality, drones and robotics can benefit business and the community through improved services, higher productivity and greater quality of life. But they can also present challenges to traditional ways of doing things and have costs that are more concentrated than benefits, though lower. This raises demands to manage or even halt change, such as through heavy regulation or bans.

Thoughtful strategy and credible policy responses from governments and regulators are important to plan for and respond to economic and technological change in ways that will meet community expectations. Making the most of new technologies requires room to experiment and learn, particularly where the technologies involved have the potential to be low-cost and widely distributed, like additive manufacturing, encrypted communications and CRISPR gene editing.

Highly reactive or overly change-averse responses risk curtailing innovation, reducing competitiveness and limiting the benefits of developments like digitalization. A policy and regulatory vacuum is likely to provoke subsequent hasty overreaction to any problems that emerge. Regulation has a role in addressing reasonable public concerns, for instance around security, safety, privacy and the environment. But there are also often alternative approaches to the regulatory “stick”, including consultation and dialogue, codes of practice, transitional support and education. Where regulatory measures are warranted they still need careful development.

The next government should proactively consult about major technological and economic changes; consider the full range of options for response; adopt regulatory responses only where they are proportionate and likely to provide net community benefits; and develop any regulatory response in full consultation with affected stakeholders.

Climate policy presents a particularly important industry transition challenge. Global efforts to combat climate change will ultimately require net emissions of greenhouse gasses to reach net zero or below in most countries, including Australia. This transition will take decades and entail substantial changes in technology and practices across many sectors. This creates both economic opportunities for new products and industries, as well as vulnerabilities where existing industries may experience a challenging transition or risk exit.

The next Government should develop and resource a strategy to seize the economic opportunities and manage the vulnerabilities. Bioproducts, carbon capture use and storage, electrification, hydrogen products, solar, wind and more present chances for new industries and the successful transition of existing industries. Coordinated policies, supporting infrastructure, and commercialisation finance can support growth and manage the considerable uncertainties. Any climate policy should ensure that assistance arrangements for trade exposed industries achieve trade neutrality and support decisions on longer term investments by those industries to decarbonise.

Some sectors are likely to contract over time, including in the electricity generation sector. These closures have wider impacts, including on direct employees, the supply chains in which closing facilities are embedded, and the communities and regions in which they are located. Ai Group strongly supports a fair and successful transition for these sectors. To that end Australia should work with representatives of industry, employees, States, local government and community organisations to develop effective and proactive responses to anticipated closures or transitions of existing emissions-intensive facilities.

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