

4 August 2013

Australian Industry Group Pre-Election Statement

"The Australian Industry Group welcomes today's announcement of the date for the next Federal Election. Business will be looking to the major parties to offer policies and strategies focused on creating a vibrant and sustainable economy for the decades to come," Australian Industry Group Chief Executive Innes Willox said today.

"Australia faces important long-term challenges in adjusting to the inexorable demographic forces; further globalisation and the continuing emergence of new centres of production. We also have considerable opportunities – particularly those arising from the further industrialisation and urbanisation in the countries to our north and north-west and the changing patterns of demand from the rapid growth of their middle classes.

"To make the most of these opportunities and to overcome these challenges Australia needs to build on our considerable strengths and to address our weaknesses and vulnerabilities. We need in particular to ensure we have a flexible, resilient and diversified economy that is able to adjust rapidly and smoothly to the higher exposures we now have to fluctuating commodity prices and the growing pains of the emerging economies.

"The major political parties will be judged on how well they address these challenges and in particular:

- How they plan to manage the wind-down of the mining investment boom and the reversal of the windfall boost to mineral export prices that have so dominated our economy over the past decade.
- Their approach to locking in the recent tick-up in labour productivity and build further improvements – first to overcome the legacy of the “lost decade” of low productivity growth and then to add to our areas of competitive advantage.
- Their policy commitment to rebuilding businesses and creating new businesses in areas that have been squeezed in recent years by the very high currency; the rapid rise in energy costs and the growing real unit labour cost differential between us and the rest of the developed
- How disciplined they are prepared to be in managing public sector finances to ensure we invest appropriately in productivity-enhancing infrastructure; keep tax burdens to a minimum; restore the federal budget to a more sustainable footing; and make sure that Australia’s public sector debt does not exceed prudent levels.

Workplace Relations

Effective workplace relations arrangements are critical to the ability of businesses to lift productivity and competitiveness. Under the current arrangements, the pendulum has swung too far and businesses are excessively restrained. As a result, restoring balance into Australia’s Workplace Relations arrangements ranks as the leading priority for business in the coming election. Ai Group has identified the following areas as priorities:

- The range of issues that are permitted to be the subject of bargaining claims extends well beyond those relating to the employment relationship;
- Unions are given too much scope to shape agreements covering “greenfields agreements” for new projects;
- An effective framework for individual flexibility arrangements is needed to cater for the diversity of requirements of employees and employers;
- The “general protections laws” need fixing to remove their misuse;
- The “transfer of business laws” excessively restrain opportunities for employers and employees when businesses restructure their operations.

Tax Reform

Australia needs to modernise our tax system to better equip it in the face of longer-term demographic pressures; the challenges and opportunities of intensifying globalisation; and the ongoing emergence of new centres of

economic activity. The Henry Review provides an excellent starting point for consideration of reform directions and provides a basis for a mature discussion of the appropriate directions for tax reform.

Ai Group's priorities in this area are:

- To reduce the company tax rate to the more internationally competitive level of 25 per cent. This would improve the attractiveness of Australia as a destination for international equity investment and lift incentives to reinvest and innovate; and
- To set in train a federation-wide process of reform of state and territory tax systems aimed at replacing the most inefficient taxes including taxes on property transfers; levies on insurance premiums; payroll tax and quantity-based royalties on natural resources.

Education and Training

Industry Leadership

One of the great strengths and internationally admired aspects of the Australian training system is the role of industry. The industry-led nature of our training system is of prime importance and is the central tenet upon which our system is built. This industry leadership has been strengthened over recent times through the establishment of the Australian Workforce & Productivity Agency (AWPA) and role of the industry skills councils. It is our firm view that both the remit of the ISCs and current arrangements in relation to industry sector coverage is both appropriate and must be maintained.

Training Sector Investment

In order for the training sector to be sufficiently responsive to industry needs it needs to be properly resourced. For too long the training sector has been the poor cousin of the higher education and school sectors. In many jurisdictions funding is in decline and the movement to funding contestability and entitlement models do not always address industry needs. Commonwealth leadership in this arena is essential.

Apprenticeship Reform

Reform to the Australian Apprenticeship system is an issue that requires further attention. We are of the view that the apprenticeship system is of crucial importance to our economy but issues need to be addressed. Chief among these is the need to refocus apprenticeships on the core relationship between the apprentice and the employer. Many issues require attention including national inconsistency, competency-based progression, completion rates and pathways to apprenticeships. Ai Group has been actively involved in the initial work on the Alternative Trade Pathways project but wants to ensure that apprenticeships and the proposed pilots are industry driven.

Workplace Literacy and Numeracy

Our research tells us the situation regarding the low levels of workplace literacy and numeracy is a major concern to employers. It has a negative impact on productivity, labour mobility and the capacity of the economy to achieve the higher levels of skills needed for the increasingly knowledge-based economy. A major boost to the Workplace English Language and Literacy (WELL) program and related initiatives to help employers address these issues is required.

School Sector Reform

A world class economy needs the support of a world class education system. All the international indicators reveal that we do not have this. Particular areas of concern are the lack of work-readiness and foundation skills of school leavers, the decline of the STEM skills very much needed for the new economy and considerable employer unease about VET in Schools arrangements.

Management and Leadership

To achieve the productivity gains we want it is becoming increasingly clear that we need to lift the performance of management and leadership within our companies. Increased capabilities are needed to develop the greater innovation necessary to be competitive in the Asian Century. Ai Group sees this as an expanding area of government – industry collaboration.

Innovation and Business Capabilities

Innovative and excellently-managed businesses are central to the identification and successful execution of new sources of wealth creation and growth. They are particularly important in sectors now looked upon as sources of resilience and diversification as the mining investment boom winds down.

Research and Development Tax Incentive

The remodeled R&D Tax Incentive with its changed eligibility rules is still in trial mode and Ai Group urges all parties to commit to a rapid response to any flaws that emerge from the initial period of its operation. The additional proposed change in the R&D Tax Incentive to deny access to larger businesses was poorly thought out and would leave a substantial hole at the epicentre of Australia's innovation system. The proposed change has not been legislated and Ai Group urges that the proposed change not be proceeded with under a new Government.

Business-Research Collaboration

In addition to the initiatives taken under the Industry Innovation Precincts program, Ai Group believes that governments have critical roles to play in improving the degree of collaboration between the business community and Australia's publicly funded research institutions. We urge a new government to reassess and remodel the incentives faced by researchers and research institutions so that adequate rewards and recognition are available for researcher-business collaboration. We also urge the funding of the investigation and publication of case studies of successful collaborative efforts between businesses and research organisations.

Industry Innovation Precincts and the Industry Innovation Network

A central initiative from the February Innovation and Industry Statement was the announcement of a new Industry Innovation Precincts program. The Precincts are to be led by industry and will help businesses and researchers share knowledge; deploy technology, create products and services and take advantage of business opportunities. The Precincts are to be complemented by an investment in a national Industry Innovation Network which aims to assist businesses to connect to local and international opportunities and information about business opportunities and areas of improvement. Ai Group urges that these important initiatives be backed by a new Government.

Building Business Capabilities: Enterprise Connect and Researchers in Business

The Enterprise Connect program is the major federal program targeting the improvement of business capabilities.

The program has grown from the original Australian Industries Productivity Centres program component of the 2007 Global Integration: Changing Markets, New Opportunities initiative. Since then it has evolved and has been refined and is now a major contributor to building business capabilities among Australia's small and medium enterprises.

Most recently, in the February 2013 Industry and Innovation statement, important improvements have been made. These include making Enterprise Connect available to a larger number of businesses across a number of sectors; enabling Enterprise Connect to partner with other business support services to deliver the Growth Opportunities and Leadership Development (GOLD) program, for businesses with particularly strong potential.

A particularly innovative dimension of the Enterprise Connect program is the Researchers in Business (RiB) program which links businesses and researchers and has proven to be a very valuable initiative that offers businesses, in many cases for the first time, a link with Australia's research capabilities. Businesses that have used the program rate the experience very highly as a way of lifting their productivity and improving their opportunities.

Ai Group urges the continuation, and to the extent possible, further judicious extension of the Enterprise Connect and Researchers in Business programs.

Digital Capabilities

Australia is making significant public and private investments in fixed and mobile broadband infrastructure. But many industries and businesses are unprepared to capitalise on this infrastructure with a recent Ai Group survey finding fewer than 50% of business respondents were confident they had the capability to take advantage of high-speed broadband. To take full advantage of these investments, Australia needs complementary policies including:

- Continued support for the Digital Business Kits and Digital Enterprise programs which build SME skills and demonstrate the business benefits of adopting digital technologies and services.

- Development of better metrics to assess progress against the National Digital Economy Strategy's goal that by 2020 Australia will rank in the top five OECD countries in the portion of businesses using online opportunities to drive productivity.
- The creation of a standing Digital Productivity Advisory Board to advise on the implementation of the National Digital Economy Strategy and rollout of Government online services.

Regulatory Burdens

Notwithstanding considerable activity over the past decade in the form of consultation, report writing and inter-governmental talkfests, businesses and other organisations continue to face escalating regulatory burdens. Unnecessary regulatory burdens cost time and money and, for businesses, are a productivity-sapping diversion of effort.

Cut-through strategies are needed that reduce burdens from the existing regulatory stock, ensure new regulatory requirements are both necessary and efficiently designed, and lift the performance of departments and agencies in the exercise of regulatory functions.

For regulatory burdens to be meaningfully reduced clear objectives need to be adopted by governments; measures of regulatory burdens need to be developed and refined; best practice models for regulation and regulator behaviour need to be adopted; and governments and regulators need to be allocated firm targets and be accountable for meeting them.

The Federal government should lead a regulatory improvement drive both for agencies for which it is directly responsible and, through the Council of Australian Governments and link this effort with a mix of "carrots and sticks" linked to timely achievement of explicit targets.

Improvements in particular areas of regulatory failure that Ai Group has been seeking for some time include the harmonisation of trade licensing and electrical safety across the federation.

We support the Digital First policy requiring priority government transactions to be end-to-end digital by 2017. But it needs to be tied to measures to reduce the regulatory burden on business, introduce a more customer-centric approach to service delivery, and better public reporting on the quality of Government online service delivery. For example, where businesses are required to register or report online to comply with regulatory obligations, there needs to be a public reporting mechanism to assess whether the Government service launched on time, whether the registration process was simple to use or subject to errors, whether it included unnecessary requirements or administrative burdens, and how quickly issues or complaints were resolved.

Defence Industry

In regard to the defence industry, there are three principal election priorities:

- Certainty - Defence industry seeks regular updates from Government - through the Defence Capability Plan - of its plans for acquiring equipment for, and sustainment of, equipment for the Australian Defence Force. This will allow industry to invest wisely in infrastructure and skills.
- Valley of Death - the naval maritime construction industry seeks an assurance from both major parties that they will bring forward work on new naval vessels so as to avoid a potential closure of the Williamstown shipyard in Victoria and secure the future of shipbuilding in The Hunter.
- Future Submarine Program - the Ai Group Defence Council fully supports government commitment to construct 12 new submarines in Australia. This will be the largest, most sophisticated defence program ever undertaken in Australia.

Infrastructure

Ai Group has long argued for a package of measures to underwrite a substantial lift in investment in productivity-enhancing infrastructure. We continue to support:

- The development of a transparently derived pipeline of priority infrastructure projects rigorously supported by cost benefit analysis;
- A greater willingness to support public sector investment both by realising funds from the sale of public assets that are more appropriately managed by the private sector and by selective recourse to public sector borrowing;
- Facilitation of greater private sector infrastructure investment, including by superannuation funds, whether through the sale of existing publicly-owned assets, by issuing debt and by direct funding of new projects.

- Greater and more efficient private sector involvement in the provision of infrastructure - whether in building or owning assets - will require improvements to reduce the substantial costs of tendering for public-sector contracts.

We support the rollout of high-speed ubiquitous broadband as an essential infrastructure investment for Australia. Momentum in the rollout must be maintained, giving business users and suppliers the confidence to plan around a clear and certain rollout timetable.

Trade

Ai Group recognises the central importance international trade has for the future growth of the Australian economy. In particular we need to extend the export performance of a range of industries to further add to export strengths beyond the mining and rural sectors.

We support vigorous pursuit of open trade agreements both through bilateral and multilateral agreements. These negotiations should be mindful of the range of exporters and potential exporters across the economy and need to give greater weight to the removal of non-tariff barriers to trade.

At the same time, Ai Group supports fair, effective and accessible anti-dumping arrangements consistent with WTO rules. We also support greater attention being given to the risks of sub-quality imported goods that undermine the effectiveness of domestic regulation and the standards applied by domestic producers.

Immigration

Taking into account continuing skill shortages and the economic benefits offered by the migration program we support a strong focus on skilled migration and maintaining the current planning levels of Australia's migration program at 190 000 places in 2013-14 and beyond. Any focus on lifting the proportion of the program devoted to skilled migration would be welcome. We also urge all parties to depoliticise the debate which has led to the demonising of 457 visa holders and their employers and to ensure there is no further over-regulation of this valuable temporary skilled visa scheme.

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