Chemistry Australia
The Business of Chemistry Essential for Life

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Ms Danielle Wood
Chair
Productivity Commission
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Dear Ms Wood

Creating a more dynamic and resilient economy - Submission

Chemistry Australia welcomes this opportunity to provide this submission to the Productivity Commission's inquiry into creating a more dynamic and resilient economy.

About Chemistry Australia and our industry

Chemistry Australia is the peak national body representing the chemistry industry. Chemistry Australia members include chemical manufacturers, importers and distributors, logistics and supply chain partners, raw material suppliers, plastics fabricators and compounders, recyclers, service providers to the sector and the chemistry and chemical engineering schools of leading Australian universities. Chemistry Australia's affiliate members include the Australian New Zealand Industrial Gas Association (ANZIGA), the Australian Paint Manufacturers' Federation (APMF), and Expanded Polystyrene Australia (EPSA).

The chemistry industry is one of the largest manufacturing sectors in Australia. Our industry directly employs more than 69,000 people (FTE) and supports approximately 240,000 FTE jobs across the economy. The sector contributes $49 billion to the gross domestic product, supplying inputs to 108 of Australia's 114 industries.

The Australian chemistry industry is integral to driving innovation, supporting economic growth, and enhancing our quality of life. Our sector supplies essential materials to diverse industries and serves as a cornerstone for future technological advancements. Amid the pressing challenges of climate change and the need for circular economies, chemistry has never been more crucial.

The linkages and inter-dependencies across the chemical manufacturing ecosystem multiply the economic benefits of chemistry sector investment. Outputs from chemical facilities support further investment in manufacturing along multiple value chains. Unfortunately, as we have recently seen, the converse is also true: a plant closure can have a ripple effect, leading to additional closures and the loss of key value-adding and employment opportunities, with risks for our future supply chain security and resilience.

Globally, the chemistry industry is making substantial investments to supply the inputs needed to support the energy transition and establish more circular economies.

There is no guarantee that the global mobile capital available to address these challenges will reach Australia. Indeed, Australia is a difficult economy in which to justify investment and reinvestment.

Factors constraining investment

Australia's investment environment has become increasingly challenging for the chemical manufacturing sector over the past decade, despite our vast endowment of natural resources that serve as feedstock for critical chemical and mineral production.

The key factors constraining investment and reinvestment include:

- The lack of reliability and low-cost energy, including gas as a feedstock for chemical manufacturing;
- Regulatory complexity, including red/green tape and duplication and a lack of harmonisation across nine separate jurisdictions;
- Skills shortages; and
- Declining productivity that is in part the result of the factors outlined above.

Tax policy is a key competitive space.

Globally, countries compete to attract mobile investment capital. Tax policies, settings, and outcomes are key elements of this competition.

There is perhaps no better example of this than Singapore. By utilising beneficial tax arrangements to attract investment, businesses, and entrepreneurship, Singapore has captured lucrative income streams that have no inherent connection to the country other than the tax-advantaged business structures that Singapore's policies created. The economic growth and development resulting from this investment have improved living standards and employment opportunities within Singapore. Other jurisdictions, including Ireland, the Netherlands, and Malaysia, have similarly leveraged competitive tax settings to attract investment.

Australia should not ignore this reality. Our failure to adopt a strategically competitive approach to tax policy has led to the relocation of jobs, activities, R&D, intellectual property, investment and incomes to other jurisdictions.

This needs to change if we are serious about attracting investment in this globally competitive environment.

Chemistry Australia policy priorities

Chemistry Australia and our members remain deeply committed to strengthening Australian manufacturing and industry. As outlined in our policy priorities document, "*An Ambitious Vision for Investment in Australian Chemistry*", we believe strategic investment in our sector will generate significant economic, social, and environmental benefits for all Australians.

On the tax front, our policy priorities called for:

- Establish an instant asset write-off with no caps or thresholds;
- Changes to the tax treatment of grant funding incentives provided to domestic manufacturers. These incentives should be treated as non-assessable, non-exempt income;
- Continued commitment to the R&D tax incentive to support the domestic R&D activities required to develop the chemistry, products, and materials for Australian consumers and industries;
- Extension of the "patent box" concept to all Australian R&D; and
- The establishment of a lower effective tax rate for income derived from Australian R&D that is commercialised through manufacturing investment in Australia.

Opportunities

As noted above, Australia's endowment of natural resources will continue to attract investment in feedstocks for critical minerals and chemicals. Indeed, there may be significant opportunities for gas-enabled chemistry manufacturing in northern Australia. At the same time, increasing geopolitical risks are strengthening the case for critical minerals production in Australia.

Strategically focused, competitive tax arrangements designed to attract investment will strengthen the case for additional investment in Australia and enable our economy to capture a greater share of the economic benefits, jobs, activities and value derived from these investments.

If you would like to discuss this submission further, please do not hesitate to contact me at or via email at .

Yours sincerely

Bernard Lee
Director – Net Zero Transition and Policy