23 September 2025

Ms Danielle Wood
Chair
Productivity Commission
5pillars@pc.gov.au

Dear Ms Wood,

SUBMISSION IN RESPONSE TO THE 5 PILLARS OF PRODUCTIVITY INQUIRIES INTERIM REPORTS

We are pleased to make this submission in response to the five Interim Reports released for comment in August 2025 by the Productivity Commission.

Wesfarmers offers a unique insight

Wesfarmers is a diversified conglomerate and one of Australia's largest listed companies. Our businesses span: retail of home improvement, general merchandise, apparel, technology products, health products and services, wholesale distribution of pharmaceuticals, manufacturing and distribution of chemicals, fertilisers and gas, a lithium joint venture, and industrial and safety products. Together, our businesses employ more than 118,000 team members, with 90 per cent of team members working in Australia from around 2,000 places of business across all States and Territories.

Since listing in 1984, Wesfarmers has focused on providing satisfactory long-term returns for shareholders which we believe is only possible by creating value for our customers, team members, suppliers, the communities in which we operate and by taking care of the environment. We are proud of our track record, which demonstrates the strong alignment between national prosperity and shareholder returns.

Due to our large, diverse footprint and operating model, we are able to offer unique insights into the Australian economy and community. We have a strong appreciation for the opportunities to create a more competitive, prosperous Australia, for all Australians.

A confident vision for growth and prosperity

Australia's private sector has a central role to play in building sustainable prosperity. In Australia, the private sector contributes 72 per cent of all hours worked and 82 per cent of gross value added.[1] While small and big businesses are interconnected, as suppliers, customers and partners, the opportunity to drive national productivity sits disproportionately with large businesses. For instance, the largest 20 per cent of businesses

[1] Five big tests for Australia's productivity agenda | McKinsey

in Australia by output are responsible for 80 per cent of total business investment, and the top one per cent accounts for roughly half of all non-mining investment.[2]

Working together, with a focus on addressing Australia's weak economic growth and low productivity, we need a bold agenda that leverages our strengths and is optimistic about our potential. We need to tackle difficult reforms, with a focus on those that drive a step change in business investment, knowing that large businesses will be the most significant contributors to investment. We must avoid measures which reduce or otherwise impede investment by large businesses, in the hope they might encourage investment by smaller businesses.

While Australia offers many advantages as a place to live and for business, in our experience, Australia has also become a more difficult and more expensive place to do business. Australia is losing its competitive advantage to nations which are more strategic and purposeful in attracting and enabling investment. This is due to the nature, extent and complexity of regulation, approval processes and tax settings, among other factors, many well described in recent Productivity Commission reviews. Our geographic scale and relatively low population (compared to other major economies) mean critical mass is required to deliver the economies of scale which support efficient, low-cost products and services, across many industries. We certainly see this in our retail and industrial businesses.

Wesfarmers businesses have a strong track record of delivering the benefits of scale to the community through everyday low prices in our retail businesses, investment in new industries, efficiency and future growth, supporting local communities, while maintaining profitability consistent with comparable international companies.

Remaining competitive with international companies

Most of our businesses compete with much larger, international companies operating in Australia and leveraging global scale. Bunnings, Kmart Group, Officeworks and Wesfarmers Chemicals, Energy and Fertilisers (WesCEF) compete with far larger global companies like Amazon, Costco, Temu and Albermarle – which benefit from attractive, home market regulatory and tax settings. Global businesses structure their operations to take advantage of more favourable regulatory and tax jurisdictions, putting domestic, Australian-run businesses at a comparative disadvantage.

Comparing retail businesses Bunnings and Kmart with Amazon highlights the disparity. Bunnings and Kmart together employ almost 100,000 team members with 30,000 in Victoria where 6.85 per cent payroll tax is payable, in addition to 30 per cent company tax. In FY2025, Wesfarmers paid an effective tax rate of 38 per cent, including payroll and other taxes whereas Seattle-based Amazon pays an effective tax rate which is less than half that of Wesfarmers. This difference strengthens Amazon's relative competitiveness in Australia – giving it more scope to invest in its business and attract capital on favourable terms. Over the long term, this disparity drives investment, jobs and earnings offshore, weakening Australia's resilience and dynamism.

While international competition is healthy and beneficial, it is critical to ensure a level playing field, so Australian businesses are not disadvantaged, especially when other countries are proactively supporting the competitiveness of their key businesses. The erosion of Australia's relative competitiveness accelerates the transfer of value from Australian business and Australia to foreign companies and other countries. Over time, this trend weakens our economy and the future prosperity of Australian households.

While Australia's corporate tax rate is high relative to many other nations, shareholders receive the tax benefit of imputation credits paid with franked dividends. This is important to many Australians, including many retail shareholders, who own shares directly or through superannuation. Any international comparison of Australian corporate tax rates must consider the benefits of dividend imputation, and it is arguable that there is a stronger and more urgent rationale for tax reform beyond corporate tax.

Australia's more damaging taxes (like payroll tax and stamp duty) increase the cost of doing business and work against national goals of increasing investment, jobs and wages, and to improve housing affordability. Significantly, the opportunity to remove these harmful taxes is at the State level, and the capacity to fund the change is with the Commonwealth.

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[2] Which Firms Drive Business Investment? New Evidence on the Firm-size Distribution | RBA

When reviewing our tax system, meaningful benefits would flow from removing payroll tax and replacing this State revenue with a broader and higher rate of GST, coupled with progressive compensation for a majority of Australians, focussed on those who are least able to absorb the change. Stamp duty could also be removed in favour of a broad-based land tax, with support from the Commonwealth.

To further drive growth, the Commonwealth, State and Territory governments must also focus on reducing Australia's regulatory burden – to ensure any regulation is necessary, and to address unnecessary complexity and federation friction, which impedes investment and adds costs for all. This opportunity is significant and we support the Treasurer's call for regulators to better balance their focus to include growth and efficiency, not just risk. Internationally, governments are addressing the opportunity to simplify national regulatory frameworks at pace.

Value creation from investment – implications for government and tax policy

Investment and capital deepening are key drivers of productivity, but only when the incremental investment is directed to value-creating strategies. Generally, the private sector is best positioned to make value-adding investments, by virtue of investment experience, capacity to assess risk and returns and by leveraging existing assets and systems. The community benefits from successful private sector investment in many ways, including through competitive products and services, more jobs and higher wages, increased demand for suppliers and additional tax paid to governments.

Tax and other policies should be designed to encourage private sector investment, and not pick winners or otherwise replace the role of the private sector in value creation. Investment that does not generate a return above either private or public costs of capital will ultimately destroy value, leaving Australia worse off.

While it is important to maintain competitive settings and incentives to drive investment in Australia, Government should not add cost to or penalise existing businesses, when seeking to incentivise new investment. This would be a perverse, unintended consequence of the additional net cashflow tax as recently proposed by the Productivity Commission. This proposed new tax would essentially increase the costs and reduce the competitiveness of the very businesses Australia relies upon, to invest in the future. Such a tax would further weaken the competitive position of large Australian-based businesses and add to the costs of their products and services for Australian households.

Significant investment will be required to support Australia's decarbonisation goals and the recently announced Nationally Determined Contribution. Measures like Carbon Capture and Storage (CCS) will be essential enablers of the net zero transition for the industrial and manufacturing sectors, and the Commonwealth will need to implement strategies to address carbon leakage – to ensure we retain sovereign industrial capability.

Wesfarmers appreciates the Government's focus on managing government spending efficiently and balancing the budget. However, when incentives for investment are considered, especially as it relates to tax incentives such as accelerated depreciation or investment allowances, it is appropriate to consider the payback and value creation over the term of an investment and project. Where they are economic, new investments deliver significant benefits to the community and government budgets, in excess of the incentives' cost today, just as past investments are generating significant tax revenues and wages today.

A recent challenge is increased, more onerous workplace regulation. This is inconsistent with the productivity-enhancing strategy of encouraging enterprise level agreements, which improves business dynamism and performance while also creating more higher-paid jobs. This is a deterrent to future investment, for both domestic and international companies. A meaningful assessment of opportunities to boost productivity and investment needs to consider the effectiveness of current workplace regulation. It will be important for the Government and Productivity Commission to closely monitor the impact of the recent workplace regulation changes on productivity and investment.

Across Wesfarmers, enterprise-level agreements support business productivity and performance, with benefits shared among stakeholders including:

- Team members – through above-award compensation and benefits;
- Customers – with investment in price; and
- Community – including taxes to Government at all levels and investment in local communities.

In 2023, the Government committed to simplify the General Retail Industry Award (GRIA).[3] While this work remains ongoing, it is progressing slowly. The GRIA is a 100+ page award which still includes 994 different wage rates and provisions which are contradictory or confusing.[4] A simpler, less complex GRIA will support compliance by all employers (including small businesses) and enable employees to better understand their compensation.

Six priority areas – based on the Interim Reports

Wesfarmers has reviewed the Productivity Commission's five Interim Reports and identified recommendations on six priority areas for reform, as listed below and detailed in the body of this submission.

18 Recommendations across 6 priority areas
Priority area 1 – Tax policy reform to drive investment and competitiveness 1. Incentivise investment by introducing a full expensing regime for all businesses for three years (with potential to establish criteria for investments eligible for this incentive) 2. Adopt a globally competitive company tax rate and do not introduce new company taxes such as the proposed net cashflow tax 3. Develop and implement a plan to remove harmful State and Territory taxes over time, with an assessment of potential modifications to the Goods and Services Tax
Priority area 2 – An ambitious regulatory reset 4. Adopt a 25 per cent reduction in regulation by 2030 and a regulatory framework based on global best practice 5. By rewarding State and Territory action, fast-track regulatory harmonisation across the federation 6. Streamline taxation administration and reporting requirements
Priority area 3 – Measures to address housing shortages 7. Reform planning and approval processes to accelerate approval timeframes, and introduce and report on key performance indicators 8. Establish a Commonwealth facility to accelerate State and local government investment in essential shared infrastructure in housing estates 9. Adopt new design and compliance standards to encourage modular and prefabricated housing 10. Incentivise downsizing for homeowners with stamp duty reform and incentives
Priority area 4 – Accelerate and improve major project approval processes 11. Reform our national environmental laws, while ensuring the Minister for the Environment retains responsibility as ultimate decision-maker 12. Streamline approvals for major projects in all sectors, not just "clean energy priority projects" 13. Implement the "Investor Front Door" and "Tell Us Once" principles to support the delivery of major projects
Priority area 5 – Addressing climate change 14. Accept that carbon capture and storage (CCS) is mission critical to industrial emissions abatement, and support CCS through policy and funding 15. Address carbon leakage risks to ensure they do not undermine Australia's decarbonisation efforts and jeopardise significant Australian industries, driving them offshore 16. Provide greater flexibility in the Safeguard Mechanism
Priority area 6 – Enabling the responsible use of Artificial Intelligence 17. Build on existing frameworks, rather than introduce AI-specific regulation 18. Ensure AI and other technology capabilities are prioritised for immigration programs

In our view, these recommendations provide a roadmap to materially advance Australia's national interest and will support an improvement in national productivity and our long-term national prosperity.

[3] Modern Awards Review 2023-24 | Fair Work Commission
[4] General Retail Industry Award 2020 | 1 July 2025

Wesfarmers is keen to engage and support the Productivity Commission and Government to advance these important recommendations. I look forward to having the opportunity to discuss them with you.

Yours sincerely,

[redacted]

Rob Scott
CEO and Managing Director

Copy to:
Alex Robson – Deputy Chair, Productivity Commission
Julie Abramson – Commissioner, Productivity Commission
Catherine de Fontenay – Commissioner, Productivity Commission
Angela Jackson – Commissioner, Productivity Commission
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Martin Stokie – Commissioner, Productivity Commission

WESFARMERS RESPONSE

PRODUCTIVITY COMMISSION
5 PILLARS INTERIM REPORTS

Priority area 1 – Tax policy reform to drive investment and competitiveness

1.1 Key issues

Private sector investment and productivity are hampered by Australia's globally uncompetitive and complex tax system which:

- Deters investment with an uncompetitive tax regime and limited incentives supporting new investment, beyond standard tax depreciation rates. At 27 per cent, Australia's average effective corporate tax rate is materially higher than other developed economies such as the United Kingdom (23 per cent), the United States (19 per cent) and Ireland (18 per cent);[5]

- Disadvantages Australian-based companies (with operations and support teams in Australia) relative to international competitors including by imposing onerous State and Territory payroll taxes, which are assessed on total remuneration to personnel in relevant jurisdictions, increasing the effective tax rate above the corporate tax rate;

- Burdens companies with added reporting, compliance, assurance and administration costs that are disproportionate to actual or perceived tax risk, eroding business productivity and competitiveness; and

- Dampens innovation and employment opportunities as businesses choose not to invest or to invest less in growth and expansion projects.

Taken together, the tax regime lowers investment and adds costs, reducing the market value of large, listed businesses, impacting all Australians with superannuation balances, collectively the largest ASX investors.

Any proposal to introduce new or additional taxes, such as the net cashflow tax for large companies proposed in the "Creating a dynamic and more resilient economy" Interim Report, would make Australia's tax system more complex and less competitive, exacerbating productivity impacts.

Wesfarmers is strongly opposed the introduction of any new or increased company taxes including the net cashflow tax for large companies.

1.2 Recommended reforms

Significant productivity gains can be unlocked in Australia through tax reform, focused on reforming the tax system to improve Australia's global competitiveness, incentivise investment and remove the most harmful taxes (specifically payroll tax and stamp duty). Tax reform should also consider a more sustainable and equitable basis for funding the future commitments of Government.

A staged approach to tax reform that balances the most substantial and sustained productivity gains could include:

- Immediately:
    - Commit to no increase in company tax, including the proposed net cashflow tax, to avoid further erosion of Australia's relative global competitiveness and lagging business investment;

[5] Five big tests for Australia's productivity agenda | McKinsey

- Commit to retain imputation credits to support domestic investment and capital efficiency – recognising the broader community benefits in superannuation; and
- Allow full expensing of capital expenditure for an initial period (we suggest three years) for businesses of all sizes, possibly focused on defined categories of investment, to incentivise business investment.

- Plan now to implement after the next election:
  - State and Territory governments to remove payroll tax, with the Commonwealth increasing the GST rate and broadening the GST base, coupled with progressive compensation for the majority of Australians, focussing on those least able to absorb the change;
  - Facilitate State and Territory governments to replace stamp duty with a broad-based land tax, to support labour mobility, remove barriers to home rightsizing and ownership, and incentivise investment; and
  - For an initial period, index personal income tax brackets to avoid ongoing real increases in the tax burden on taxpayers. This would preserve the incentives to work, upskill and increase hours worked, and help to reduce intergenerational inequity in the tax system.

Recommendation 1 – Incentivise investment by introducing a full expensing regime for all businesses for three years (with potential to establish criteria for investments eligible for this incentive)

Full expensing (also known as immediate tax deductibility) for all capital expenditure across all businesses will immediately increase and attract new investment, and quickly generate productivity gains to grow the economy.

This could be introduced for an initial period of three years to accelerate and / or to unlock new investment in certain industries or priority areas, with its impact assessed in due course for longer term adoption. Limiting the immediate tax deduction to certain priority areas would encourage new investment deemed most important for Australia's future – including productivity enablers, emerging industries and decarbonisation measures.

This reform would likely unlock wider benefits through an economic multiplier, as increased investment drives higher spending in the economy. The cost should be recouped over time, as investments deliver returns.

This reform would replace the existing, fragmented system of investment incentives and complex tax depreciation rules, simplifying laws and reducing compliance costs. It would also harmonise investment incentives across all businesses and contribute to a more sustainable budget.

Other benefits include:

- Full expensing removes acute tax complexity inherent in the current system by treating all expenditure (whether labour or capital) as deductible when incurred;
- It would simplify the tax system, with less time and money spent by taxpayers, authorities and advisers, to address capital revenue distinctions, depreciation rules and tax fixed asset registers;
- It does not require major changes to current tax compliance infrastructure, nor would it require new or unfamiliar tax rules;
- For Government, it results in a timing difference for collections, as deductions are brought forward but not increased. Over time, there is no impact on total deductions or collections; and
- Better alignment to the economics of decision making, being based on cashflows rather than estimates of the effective life of individual assets.

Many foreign jurisdictions use varying forms of accelerated tax depreciation to drive investment and growth, as evidence shows a permanent, full expensing regime increases and accelerates investment and is likely to support capital deepening, labour productivity and real wages growth.

Recommendation 2 – Adopt a globally competitive company tax rate and do not introduce new company taxes such as the proposed net cashflow tax

At 28.5 per cent, Australia has the tenth highest Effective Average Tax Rate (EATR) of 90 jurisdictions assessed in the OECD 2024 Corporate Tax Statistics. The average EATR across the 90 jurisdictions was 20.2 per cent in 2023.[6] An uncompetitive tax rate harms business investment and employment opportunities and is a drag on economic growth and growth in federal budget revenues. Committing to no further degradation in Australia's competitiveness globally, including no change to dividend imputation, will ensure that business investment is not harmed any further.

Dividend imputation (with the distribution of franking credits to shareholders) supports domestic investment because Australian capital invested in Australia can deliver improved, after-tax returns with imputation credits attached to dividends. Dividend imputation also lowers the cost of capital, as is evident through the "gamma" adjustment in the calculation of weighted average cost of capital. Capital discipline is improved where businesses are incentivised to return excess capital to shareholders, rather than retaining funds inefficiently. All retail shareholders, including Australians with superannuation, benefit by receiving dividend income at their marginal tax rate. This is a positive aspect of the Australian tax system that provides a direct benefit to millions of Australians and supports our globally leading superannuation system.

Something that is not appreciated is that the abolition of dividend imputation could result in renewed activity in corporate tax avoidance. It is a little-remembered fact that the introduction of imputation in 1988 resulted in the overnight cessation of tax avoidance schemes as paying corporate tax became more attractive because of the benefit it brought to a company's shareholders.

The five per cent net cashflow tax proposed by the Productivity Commission will re-weight tax collections towards large companies and likely reduce aggregate investment, recognising the disproportionate contribution that they make to national investment. Reduced investment will impact national productivity, growth and prosperity. Because of the strong inter-dependence between large and small businesses, new taxes for larger companies will, in time, also adversely impact smaller companies. For smaller companies, it is possible that the reduction in earnings will exceed any proposed reduction in company tax.

While it is important to maintain competitive settings and incentives to drive investment in Australia, governments should be careful not to add costs to, or penalise certain existing businesses, in an effort to incentivise new investment. This would be a perverse, unintended consequence of the additional net cashflow tax as recently proposed by the Productivity Commission. This new tax would essentially increase the cost and reduce the competitiveness of large businesses which are the very businesses we most rely upon, to invest in the future. Such a tax would further weaken the competitive position of large Australian-based businesses and will add to the costs of their products and services for Australian businesses and households. A five per cent net cashflow tax as proposed would also add to the compliance burden and may incentivise a focus on tax minimisation, rather than investment and productivity.

For Wesfarmers, the proposed net cashflow tax would increase the overall tax burden (including payroll tax, discussed further below) towards 40 per cent, which would adversely impact our businesses' capacity to compete, invest and create more, higher paying jobs. It is anticipated that the additional costs of compliance with the proposed net cashflow tax, for both business and government, would be material. Wesfarmers is strongly opposed to the introduction of any form of net cashflow tax or any new or increased company tax.

Recommendation 3 – Develop and implement a plan to remove harmful State and Territory taxes over time, with an assessment of potential modifications to the Goods and Services Tax

A holistic tax reform agenda must include measures to eliminate, or at least reduce, some of the most damaging taxes, such as payroll tax and stamp duty, with the goal of ensuring Australia's tax system is internationally competitive and aligned to future needs.

The States and Territories have the greatest opportunity to remove harmful taxes but the least capacity to fund this change. The Commonwealth has the opportunity to unlock significant productivity gains by

[6] Corporate Tax Statistics 2024 | OECD

supporting a change, over time, to wind back damaging taxes in favour of more efficient taxes – with progressive compensation to the majority of Australians, focussed on those least able to absorb the change.

Payroll tax

Payroll tax is heavily relied upon by States and Territories but operates to the detriment of all Australians. It is, effectively, a tax on jobs, disadvantaging companies that are major local employers, discouraging employment and dampening wages. In recent years, several State governments have made expedient, short-term decisions to increase payroll tax, to fund budget deficits. These changes have further damaged already weak State economies. Removing State and Territory payroll taxes would provide an efficiency dividend to the Australian economy, encouraging the hiring of staff and facilitating increased wages. Payroll taxes at their current levels are a disincentive for businesses to pay higher wages and they make Australian jobs more vulnerable to the risk of offshoring and technological displacement (including from generative AI).

Recognising the fiscal challenge this reform presents for State and Territory budgets, the Commonwealth should work with them to develop then implement, over time, strategies to abolish payroll tax. The revenue gap for the States and Territories could be met by increasing the GST rate to 15 per cent and broadening the base of the GST, which would provide sufficient additional revenue for State and Territories to abolish payroll tax entirely and progressively compensate the majority of Australians, focussed on those who are least able to absorb the change. This reform would also reduce complexity and compliance costs associated with the Australian tax system.

Stamp duty

Stamp duty imposes a significant deadweight loss on the economy, harming labour mobility, creating barriers to home rightsizing and home ownership, and hindering investment in housing supply.

An opportunity exists for the Commonwealth to support State and Territory governments to transition from stamp duties towards broad-based land taxes. Achieving this change across the federation would encourage empty nesters to right-size their homes, freeing up much needed housing supply and removing barriers to labour mobility. This reform would see benefits in key areas of focus including housing supply for first hoe buyers and vulnerable communities, and for critical industries – from healthcare workers in regional areas to emerging, new industries.

Given the substantial stamp duty revenue in State and Territory budgets, Commonwealth support is required to facilitate any transition, at least for the period following the removal of stamp duty and introduction of a land tax regime.

Priority area 2 – An ambitious regulatory reset

2.1 Key issues

The Productivity Commission has recognised that regulation is an impediment to productivity, slowing investment, reducing flexibility and innovation, and adding cost through complexity and compliance burdens. Australia ranked 37 among a cohort of 43 countries whose data the OECD captures for "Administrative and Regulatory Burden".[7]

Across all sectors of the economy, businesses are required to comply with different and inconsistent Commonwealth, State, Territory and local legislation. Typically, this results in duplication of effort, adding complexity and cost for business, and compliance risk.

Significant volumes of critical regulation sit with State governments, including for project and environmental approvals, healthcare, education, housing and licensing. It follows that meaningful reform can only be delivered with leadership from the Commonwealth, working in partnership with State and Territory governments, and support from a broad range of community stakeholders.

[7] OECD Security General Speech, Australian Chamber of Commerce and Industry General Council Meeting, 2025

2.2 Opportunities for reform

There is an opportunity for Australia to reform its regulatory system, so it better balances the need to protect people and the environment, while enabling growth, investment and innovation. Adopting a regulatory system that better achieves this balance will drive business investment and activity, to support productivity, stimulate growth and deliver higher living standards. This reform will enable Australia to grow and compete in a more uncertain world.

The Productivity Commission has recommended a pathway to strike a better balance including:

- A reform agenda that includes principles and processes that support economic dynamism in regulation;
- Bolstered scrutiny to ensure the impact of regulation on business is considered across all levels of Government; and
- Regulatory settings that deliver growth, competition and innovation, noting this necessarily involves equipping the Public Service to better assess benefits and costs.

These principles must apply to the Commonwealth, State and Territory governments. As the Treasurer has noted, there are also opportunities for regulation to better favour growth over risk, and to ensure that any new regulation is directed towards activities and entities that create the highest potential risks to health, safety, the environment and the economy.

2.3 Examples of effective reforms from international jurisdictions

There are many international examples where jurisdictions have progressed meaningful regulatory reform, with common approaches including an enshrined reform commitment in law, independent oversight bodies with enforcement powers, and quantified targets with regular public reporting.

Selected examples include:

- **Alberta, Canada –** where a rule reduction program is underpinned by a statutory target to cut one-third of all regulatory requirements, enforced via annual public scorecards. The program includes zero-based regulation cycles requiring every rule chapter to sunset and be reinstated every five years. Alberta estimates C$2.8 billion in cost savings from 675 red-tape reduction initiatives,[8] with an additional benefit being restored competitiveness in attracting energy sector investment;
- **Israel –** has legislated regulatory burden reduction targets, and an independent oversight body with the legal authority to review progress. Mandatory regulatory impact analysis, including burden quantification, applies to all new regulations. Estimated savings in 2022 were approximately A$700 million, with 100 per cent of new regulations subject to rigorous impact analysis. Over 40 ministries and agencies have received formal training in regulatory design since 2018; and
- **Switzerland –** implemented comprehensive digitalisation of government services to reduce transaction costs and improve efficiency. These reforms delivered a 30 per cent reduction in administrative burden on SMEs and created supportive frameworks for over 100 innovative start-ups annually through tailored regulatory sandboxes.

2.4 Recommended reforms

Recommendation 4 – Adopt a 25 per cent reduction in regulation by 2030 and a regulatory framework based on global best practice

Drawing upon international experience, the Commonwealth should develop a regulatory framework that has successfully achieved better outcomes by establishing:

- A significant reform commitment with at least a 25 per cent reduction in regulatory burden, enshrined in law, by 2030;

[8] Red Tape Reduction Annual Report 2022-23 | Alberta

- Initiate a consultation process to agree the most important regulations for reform;
- Task Treasury with oversight and enforcement of the regulatory burden reduction target, with the Treasurer accountable for overall delivery; and
- Regular public reporting of progress against targets.

The regulatory framework should better balance growth opportunities and risk mitigation, which may include:

- Considering how to support sectors to self-regulate, with Government only stepping in where clear market failure exists or emerges; and
- A "sandbox" approach to support innovation in an environment that is not overly prescriptive while testing and learning.

Recommendation 5 – By rewarding State and Territory action, fast-track regulatory harmonisation across the federation

National Competition Policy (NCP) reforms announced by the Treasurer in late 2024[9] are positive and should enable meaningful productivity reform and regulatory harmonisation across the federation. Wesfarmers supports ongoing work to progress and expand the NCP priorities to include multiple Commonwealth and State harmonisation priorities.

The recent decision to prioritise heavy vehicle access reforms and introduce a national licence scheme for electrical tradespeople are excellent initiatives which will reduce regulatory burden to unlock productivity gains. Identifying and pursuing additional opportunities for regulatory harmonisation must remain a priority for the Commonwealth, States and Territories. Opportunities for harmonisation and streamlining include:

- **Tax –** the definition and application of payroll tax, including relevant exemptions, is different across the States and Territories. This creates complexity for national businesses including when team members move between jurisdictions on a temporary or permanent basis, with lots of interpretation required to understand which laws apply;
- **Quality and safety –** product quality and safety standards could be better aligned across the federation and / or to established international standards, where appropriate. By way of example, knife laws differ across the federation and there are opportunities to align on age, signage and marketing rules;
- **Pollution –** including problematic plastic regulation (i.e., to align differing scope, coverage, signage, and enforcement regimes). By way of example, across the federation, there are different requirements for: single-use plastic items (e.g. cutlery, plates, straws etc.); expanded polystyrene containers and packaging; oxo-degradable plastics; lightweight plastic bags and products with microbeads. Harmonisation would add efficiency and improve standards (because many differences exist because jurisdictions are slow to consider reforms);
- **Labelling –** for instance to address the overlap between Commonwealth and State-based Regulatory Compliance Mark (RCM) requirements for consumer electrical products;
- **Packaging –** there is an opportunity to agree national minimum standards on all packaging which would have the benefit of supporting embedded resource recovery at end of life. By way of example, Western Australia is currently the only State with a comprehensive ban on moulded expanded polystyrene packaging, effective since 1 July 2025. Other States have focused on bans for expanded polystyrene food ware and loose-fill, with moulded protective packaging still permitted;
- **Healthcare –** pharmacists and pharmacy chains (such as Priceline) must navigate different regulatory requirements in each jurisdiction, requiring separate compliance systems, resource models and operating procedures. This impacts, among other things, licensing and registration requirements which create barriers to entry and hinder the efficient allocation of pharmacy services.

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[9] https://treasury.gov.au/review/competition-review-2023/ncp

It also creates differences in the scope of practice afforded to pharmacists across the federation which means patients in some jurisdictions receive inferior access to medical services;

- **Forms and digital government –** a risk-based and digital first approach to meeting businesses' needs should be encouraged across Government. As a particular example, lease registration for leasehold properties at State land title offices requires wet ink signatures when every other commercial agreement now allows digital signing. The requirement for wet ink signatures on form lodgements is archaic and inefficient, making form lodgement processes very burdensome;
- **Competition policy –** a review of new competition laws within a year, given the confusion and costs associated with these laws at each stage including the compulsory nature of the scheme; and
- **Procedural compliance –** for example, there are opportunities in mutual recognition, including for the Commonwealth to mutually recognise State-level safety credentials to access Commonwealth grant funding.

Recommendation 6 – Streamline taxation administration and reporting requirements

Australian taxation reporting requirements are unnecessarily onerous and a drag on productivity. Companies are spending more to meet taxation reporting requirements, in ways which are disproportionate to the risk of non-compliance. As an example, the Wesfarmers' income tax return has increased from eight pages in 2000 to 25 pages in 2005 and 190 pages in 2023.

This increase in compliance and reporting is not justified, particularly in the case of large companies like Wesfarmers which have worked with the Australian Taxation Office (ATO) over many years to achieve a high tax assurance and governance rating and with an effective company tax rate of close to the statutory rate of 30 per cent. Inefficient reporting and compliance obligations are an additional, unnecessary burden for Australian companies.

Reporting requirements for Australian companies should be streamlined to the minimum level required to confirm or justify the tax being remitted to the ATO. The ATO should then use a risk-based approach to determine whether any further audit or investigation is warranted. This would reduce regulatory and administrative burden for companies and the ATO. Increasingly, digital and generative AI tools should be used to support this work.

Priority area 3 – Measures to address housing shortages

3.1 Key issues

Australia's current chronic housing shortage is in part attributable to 30 years of stagnant productivity in the housing construction industry. Other contributing factors include population growth, availability of skilled trades, bureaucratic approval processes, limited turnover of housing stock (which is exacerbated by stamp duties) and rising property prices.

The National Housing Accord set an aspirational target to deliver 1.2 million new, affordable, well-located homes over five years from mid-2024.[10] Despite this ambition, the annual supply of new housing is near its lowest level in a decade with 177,000 new dwellings built in 2024, significantly short of underlying demand which was estimated at 223,000.[11] Concerningly, many parts of the Australian community are losing confidence that they will ever be able to own their own home, and housing costs are weighing heavily on household budgets.

Australia has abundant space and capital, and the shortage of new, affordable, well-located homes can be solved by addressing supply side constraints, regulatory complexity and cost.

[10] Delivering the National Housing Accord | Australian Government
[11] State of the Housing System 2025 | Australian Government

3.2 Opportunities for reform

The Government does not need to build these houses – indeed, that would not be an optimal or efficient solution. Instead, housing, like many supply side challenges, can be better solved by the private sector, if appropriate policy settings are in place. Importantly, private sector-led construction will also mitigate pressure on Government budgets.

Addressing the housing shortage via effective reforms to unlock supply will deliver diverse benefits:

- **Economic benefits –** with increased supply helping stabilise prices and improve affordability. This would benefit prospective homeowners and reduce the financial burden for renters. In turn, this would also increase disposable income for many Australians, supporting consumer spending and stimulating economic growth;[12]

- **Social benefits –** with access to appropriate, affordable and well-located housing improving the quality of life for many Australians, reducing homelessness and housing stress, providing families with more stable living arrangements and offering more young adults the opportunity to achieve their aspiration of home ownership; and

- **Environmental benefits –** promoting sustainable development practices including higher-densities and innovative building techniques (like modular and prefabricated housing), reducing the environmental footprint of new projects.[13]

3.3 Global examples

International examples of effective construction reform to address housing shortages, improve infrastructure and promote sustainable development include:

- **Minneapolis, the United States –** implemented zoning reforms such as eliminating single-family zoning and allowing for the construction of duplexes and triplexes in areas previously restricted to single-family homes;[14]

- **Tokyo, Japan –** achieved high-density housing in certain urban areas by relaxing zoning regulations to allow for taller buildings and mixed-use developments;[15]

- **The Netherlands –** non-profit housing associations, supported by Government subsidies and favourable financing conditions, manage and maintain affordable housing for low and middle-income families covering a significant portion of the population;[16] and

- **Singapore –** embraced prefabricated prefinished volumetric construction (PPVC) which involves manufacturing modules off-site and assembling on-site. PPVC has reduced construction time and labour costs while maintaining high-quality standards.[17]

3.4 Recommended reforms

Recommendation 7 – Reform planning and approval processes to accelerate approval timeframes, and introduce and report on key performance indicators

There is a significant opportunity for the Commonwealth to incentivise State and local governments to streamline the approval process for new housing projects. The current system can be slow and cumbersome with approval processes – including in designated major growth corridors – now regularly exceeding 18 months, which adds cost and delays the delivery of the housing stock. Significantly, there is no evidence that slow, poorly managed approval processes improve the quality of the assessment of applications.

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[12] Consumer Price Index, Australia (June Quarter 2025) | ABS
[13] Modular and the Environment | Canadian Home Builders' Association
[14] Move fast and build things? Minneapolis | Centre for Cities
[15] The four unique ways Tokyo approaches housing can offer lessons for Australia | ABC
[16] Housing Perspectives | Harvard University Joint Center for Housing Studies
[17] Prefabricated Prefinished Volumetric Construction | Building and Construction Authority

There are significant opportunities for State and local governments to implement more efficient approval processes. Opportunities include more use of software programs and staffing at councils to process applications. State and local governments should introduce a suite of key performance indicators (KPIs) and decisions should be escalated when KPIs are not met. KPIs should be reported publicly. As an example, the NSW Planning Portal could continue to be simplified to enhance workability for council staff and developers.

Recommendation 8 – Establish a Commonwealth facility to accelerate State and local government investment in essential shared infrastructure in housing estates

State and local governments do not all have the capital required to deliver essential shared infrastructure needed by developers for housing developments. Across Australia, these issues extend to access to water, sewerage, storm water, road and electricity infrastructure.

The Urban Development Institute of Australia estimates the total funding needed to support this essential shared infrastructure across NSW, Victoria, Queensland, South Australia and Western Australia is approximately $14.4 billion.[18]

The establishment of a Commonwealth capital facility that State and local governments could access at a low interest rate would speed up the delivery of housing, by accelerating delivery of essential shared infrastructure connections.[19]

As a condition of funding, the Commonwealth should require State and local governments to commit to approval KPIs and performance standards in the design and delivery of this infrastructure.

Recommendation 9 – Adopt new design and compliance standards to encourage modular and prefabricated housing

Promoting innovative building techniques and products, such as modular and prefabricated housing, can reduce construction costs and time. These measures will increase housing supply, quickly. The Commonwealth should undertake a review to consider a comprehensive deregulation agenda that includes a moratorium on any new regulatory measures that add cost to housing and impede the use of modular and prefabricated housing.

Commonwealth, State and Territory treasurers recently agreed to reforms intended to achieve these outcomes, including:

- Streamlining the National Construction Code to reduce regulatory burden on builders; and
- Working to increase the uptake of prefabricated and modular housing, including using Government procurement as a means of providing stable demand for the industry.[20]

Wesfarmers supports these initiatives and urges Commonwealth, State and Territory governments to fully implement them, at pace.

Recommendation 10 – Incentivise downsizing for homeowners with stamp duty reform and incentives

Nationwide, there are significant opportunities to achieve a better utilisation of existing housing stock, evidenced by around 13 million empty bedrooms in Australia, on the last census date.[21]

Spare bedrooms, many of which are in homes owned by older, empty-nester Australians, represent unutilised housing capacity. Providing incentives to homeowners to downsize as the composition of households change will release housing stock that is more suited to larger families or better located closer to places of work, education or transport networks.[22] It will also improve access to home ownership, for Australians.

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[18] Nationwide Infrastructure to Support Housing | UDIA
[19] Nationwide Infrastructure to Support Housing | UDIA
[20] Treasurers advance economic reforms to boost productivity | Treasury Ministers
[21] Housing: Census, 2021 | Australian Bureau of Statistics
[22] Stamp duty costs an issue for older downsizers, calls for retiree exemption | ABC

Stamp duty acts as a significant disincentive for older Australians who may want to reduce their home size but still want to enjoy familiar, local amenities, services and friends or family.

The Commonwealth should support States to provide incentives to downsize, funding stamp duty exemptions (or concessions) for eligible homeowners. This could be achieved through a tax switch, from stamp duty to land tax, delivered by State governments and supported by the Commonwealth.

Priority area 4 – Accelerate and improve major project approval processes

4.1 Key issues

Australia needs – and all major projects will benefit from – an efficient approval process, which support business and proponents to make meaningful investments which drive productivity, create high-quality jobs and deliver economic value.

At this time, inefficient Commonwealth and State government approval processes for major projects add to project development times and costs and deter proponents. They act as a drag on productivity and make Australia less competitive as an investment destination, jeopardising future employment in high-quality jobs and impeding our ability to seize opportunities in emerging and growth industries.

Significantly, there is little if any evidence to suggest that lengthy approval processes yield higher quality decisions – indeed, delays are generally attributable to poor management of approval processes through factors such as staff turnover, under-resourcing, regulatory overlap, regulatory changes while approvals are being considered and jurisdictional frictions (between agencies and across the federation including, often, a misalignment and lack of coordination). These failings require duplicated effort, cause delays and lead to inconsistent decision making.

Concerted effort by the Commonwealth and State governments is required to improve major project approval processes, to bring forward investment in critical assets and opportunities. This applies across the Australian economy including in transport infrastructure, logistics hubs, clean energy projects, resources projects and large housing developments. For major projects, efforts should focus on centralising or coordinating decision making, supporting decision makers to cut through bottlenecks, inefficiencies and inconsistencies to support timely outcomes.

It is worth highlighting the financial impact of faster decision making for major projects. Often, the most significant opportunity to improve the investment case for a major project is to bring forward the earnings – for instance, to shorten approval processes from five to four years. In our experience, it is clear that through good management, this could be achieved without compromising the quality of the approval process.

4.2 Examples of delays and inefficiencies in major project approvals

Inefficient and costly approval processes were identified during Wesfarmers' recent experience as joint venture partner in Covalent Lithium's development of the Mt Holland mine / concentrator and Kwinana lithium hydroxide refinery in Western Australia.

Offsetting arrangements

Under the *Environment Protection and Biodiversity Conservation (EPBC) Act 1999* (Cth), Covalent was required by the relevant Commonwealth agency to implement land offsetting arrangements, due to the presence of threatened flora and fauna species at the Mt Holland site.

After a period of consultation, Covalent was advised by the Commonwealth of a 4:1 land offsetting ratio by, which was agreed with the State environmental regulator and accepted by Covalent. In the final weeks of a multi-year assessment process, Covalent was advised by a different team within the Commonwealth agency that a 10:1 ratio would be required. This advice came after years of engagement and inside two months of Wesfarmers planned final investment decision for the project. After two months of additional work, the Commonwealth agency then reverted to the original 4:1 ratio. While the matter was ultimately resolved, this case demonstrated inconsistency of opinions and interpretations within the Commonwealth, causing unnecessary delays and costs for a strategically significant critical minerals project. Further, despite Commonwealth and State governments both requiring offset land, their objectives were inconsistent – with the Commonwealth favouring virgin habitat and the State preferencing land for rehabilitation.

This highlights the opportunity and importance of ensuring government agencies provide reliable and consistent advice to businesses on compliance and approvals requirements. This is difficult to achieve if individuals and teams within agencies have diverging views on issues that should be agreed upon before engaging stakeholders.

Inconsistent classification of greenhouse gas (GHG) emissions between the Commonwealth and State governments

During the development of Covalent's Mt Holland mine and Kwinana refinery, Western Australia's Department of Water and Environment Regulation (DWER) determined that transporting lithium product and waste between the two sites would result in Scope 1 greenhouse gas (GHG) emissions. This is despite transport activities being carried out by a third party provider (i.e., not under Covalent's operational control) and it being accepted practice under the Commonwealth Safeguard Mechanism and National Greenhouse and Energy Reporting regime to assess third-party transport as Scope 3 emissions.

This inconsistent approach to classifying GHGs:

- Imposes additional GHG management requirements on projects, adding to an already costly reporting and compliance burden;
- Introduces confusion among many stakeholders including those reading and relying upon climate-related disclosures in annual reports; and
- Creates an unlevel playing field for projects in the same market, advantaging competitors with separate entities conducting mining, transport and refining activities.

Repeated requests for information

A common challenge with major project proponents (including Covalent) is repeated requests for the same information, from Commonwealth and State governments and different agencies within each jurisdiction. There is little coordination and information sharing within Government and across the federation. This presents an unnecessary drain on resources, contributes to protracted approval processes and has a detrimental impact on productivity.

4.3 Recommended reforms

Streamlining approval processes for major projects must be a key pillar of any strategy to facilitate investment and boost productivity, especially in critical industries. This will, in turn, creating jobs and driving economic growth and diversification.

Recommendation 11 – Reform our national environmental laws, while ensuring the Minister for the Environment retains responsibility as ultimate decision-maker

Wesfarmers broadly supports draft recommendation 2.1 in the Productivity Commission's "Investing in cheaper, cleaner energy and the net zero transformation" Interim Report, especially the focus on national consistency in environmental law and standards.

Regarding specific Productivity Commission recommendations:

- Establishing nationally consistent standards and laws is critical to unlocking major project investment. Success will depend upon reducing duplication and improving coordination between Commonwealth and State agencies. Buy-in from State governments is critical to achieving this reform;
- Proposed changes to improve the efficiency of offsetting arrangements are strongly supported, including added flexibility to enable proponents to meet their obligations by contributing to an offsets fund. Again, alignment between State governments is critical to ensuring this reform is effective;

- The proposal to set clear expectations about engagement with local communities and Aboriginal and Torres Strait Islander people is supported, and must be designed to not duplicate, overlap or contradict corresponding State-based expectations; and
- Crucially, Commonwealth decision-making powers must be retained by the Minister for the Environment, rather than a separate or independent agency like a Commonwealth Environment Protection Agency. Ministerial decision making is critical, so that the broader national interest of a project is considered, rather than a narrower set of objectives which may fall within a specific agency's mandate.

Recommendation 12 – Streamline approvals for major projects in all sectors, not just "clean energy priority projects"

Wesfarmers notes draft recommendations 2.2, 2.3 and 2.4 in the Productivity Commission's "Investing in cheaper, cleaner energy and the net zero transformation" Interim Report, intended to streamline approval processes for clean energy infrastructure.

The Commonwealth should develop and implement a major project approvals framework, aligned to many of the Productivity' Commission's recommendations.

However, recognising that major projects from many industries (such as mining, resources, infrastructure and manufacturing) will be critical to productivity and future prosperity, all major projects must be in focus, rather than adopting a "two speed" approvals system – favouring clean energy projects over others. Establishing functions such as a strike team and Coordinator-General for all priority major projects will support smoother, faster and more coordinated approval processes, without undermining decision quality.

Limiting these reforms to focus only on "clean energy" projects misses an opportunity and fails to acknowledge the economic value of many other major projects, across all sectors of the economy. Focusing solely for clean energy projects risks:

- A disproportionate commitment of Government and agency resources to a single subset of major projects, at the expense of projects in other sectors of the economy;
- As has happened in recent years, some non-credible (or non-commercial) clean energy projects (e.g., green hydrogen) will receive undue priority access to Government and agency resources, while credible (and commercially viable) projects in other sectors (more likely to deliver economic benefits and productivity gains) do not receive sufficient focus; and
- Favoured government projects receiving priority treatment, to meet political objectives rather than based on economic merit.

Recommendation 13 – Implement "Investor Front Door" and "Tell Us Once" principles to support the delivery of major projects

The Commonwealth and State treasurers recently agreed to reform priorities intended to improve major projects approvals including:

- Identifying regulatory overlap and barriers to faster approvals;
- Working with the Commonwealth's "Investor Front Door" to unlock projects of national significance (like housing and energy);
- Accelerating efforts to reduce duplication in approval processes; and
- Progressing the "Tell Us Once" principle for businesses engaging with Government agencies, to reduce duplication and costs.[23]

Wesfarmers supports these initiatives but recommends that the benefits of these process reforms must be extended across the economy to all major projects.

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[23] Regulatory reform to reduce red tape and ease burden on businesses | Treasury Ministers

Priority area 5 – Addressing climate change

5.1 Key issues

There are substantial gaps in the Commonwealth's climate policy framework that hinder industrial decarbonisation and put Australian industry at a competitive disadvantage with other developed economies. These gaps include:

- The absence of material incentives for the deployment of CCS as an industrial abatement solution;
- Ongoing carbon leakage[24] risk for facilities and industries covered by the Safeguard Mechanism; and
- The lack of flexibility and inadequate incentive structures in the Safeguard Mechanism to drive investment in real emissions abatement solutions.

Failure to address these gaps will increase the cost and difficulty for Australia to meet its emissions reduction targets including the recently announced Nationally Determined Contribution. It could result in an overreliance on offsets (i.e., tree planting and the purchase of Australian Carbon Credit Units (ACCUs)) or offshoring of industrial / manufacturing capability, due to a high-cost domestic emissions abatement or the erosion of our international competitiveness.

These gaps must be addressed before the Commonwealth implements any changes to extend the Safeguard Mechanism to cover additional facilities and / or industries. Premature application of the Safeguard Mechanism to smaller facilities or additional industries risks exposing more businesses to high emissions abatement costs and carbon leakage risk, which will further diminish their competitiveness.

McKinsey analysis commissioned by the Business Council of Australia[25] estimates a 2035 emissions reduction target in the 50 per cent to 70+ per cent range would require capital investment of around $200 billion to over $500 billion, depending on the target adopted by the Government. A competitive tax system, effective incentives and meaningful regulatory reforms can help unlock the substantial levels of private sector investment required to meet Australia's emissions reduction targets.

5.2 Recommended reforms

Alone, the Safeguard Mechanism cannot achieve real industrial abatement, to support the path to net zero emissions. CCS, a carbon border adjustment mechanism (CBAM) and Safeguard Mechanism reforms will be essential, if Australia is to maintain a globally competitive industrial and chemicals sector. Wesfarmers recommends the Commonwealth prioritise addressing key policy gaps, to better enable efficient, effective industrial decarbonisation efforts that support net zero emissions by 2050, and to maintain the international competitiveness of Australian industry.

Key recommendations include:

- Establishing a policy mechanism to incentivise cost-effective industrial emissions abatement solutions including CCS (detailed at Recommendation 14);
- Mitigating carbon leakage risks for Safeguard Mechanism facilities by introducing a CBAM (detailed at Recommendation 15); and
- Providing greater clarity and flexibility on the "bankability" of Safeguard Mechanism Credits (SMCs) beyond 2030, as well as additional incentives for real emissions abatement (relative to offsets) with a higher SMC value or SMC multiplier for SMCs generated through real abatement (detailed at Recommendation 16).

[24] In this context, 'carbon leakage' refers to the offshoring of GHG emissions, rather than the physical leakage of emissions from a facility.
[25] Australia 2035 – Maximising Our Potential | Business Council of Australia

As part of its 2022 Net Zero Roadmap[26], Wesfarmers Chemicals, Energy & Fertilisers (WesCEF) adopted targets to reach net zero emissions by 2050, with an interim target of 30 per cent emissions reduction by 2030 relative to a 2020 baseline. WesCEF's CSBP Kwinana facility is covered by the Safeguard Mechanism and is a major producer of hydrogen / ammonia which is used in essential products for the mining and agricultural sectors. The Net Zero Roadmap and Safeguard Mechanism are the key drivers behind WesCEF's detailed analysis of abatement solutions for its hydrogen / ammonia facility.

The policy recommendations detailed below are critical to evolving Australia's climate policy framework, to accommodate large industrial businesses. They will drive the delivery of real abatement in support of national emissions reduction targets, establish a foundation for Australia to produce low-emissions products and support the ongoing operation of existing industrial and manufacturing facilities, while also facilitating investment in growth opportunities. They will also help ensure Australian industry is operating on a level playing field, relative to other developed economies.

In response to specific recommendations in the Productivity Commission's "Investing in cheaper, cleaner energy and the net zero transformation" Interim Report:[27]

- **Recommendation 1.2 (to extend the Safeguard Mechanism to smaller facilities and / or additional industries) –** Wesfarmers does not see this as an immediate priority, at least not before Recommendations 14, 15 and 16 are addressed; and

- **Recommendation 1.4 (to improve transparency and cost effectiveness of measures to achieve emissions targets) –** Wesfarmers supports the development of national carbon values (i.e., estimates of the implied carbon prices to meet Australia's emissions targets). However, this will only be effective if the Government uses the carbon values to design and evolve its policy settings to drive least-cost emissions reductions.

Recommendation 14 – Accept that CCS is mission critical to industrial emissions abatement, and support CCS through policy and funding

By way of context, the leading options to decarbonise industrial hydrogen / ammonia production at scale are blue hydrogen and green / renewable hydrogen. Blue hydrogen adds CCS to the steam methane reforming (SMR) process to produce low emissions hydrogen (with more than 90 per cent emissions reduction). Green / renewable hydrogen is emissions free, if renewable electricity is used to the electrolysis process.

While both blue and green options are technically feasible, they are cost-prohibitive in the short-to-medium term (especially compared to the alternative of grey hydrogen plus offsets). WesCEF estimates that blue hydrogen costs approximately $4-$5 per kilogram, with green hydrogen around $8-$12 per kilogram. Both materially exceed the cost of grey hydrogen at approximately $2 per kilogram and grey hydrogen with offsets of around $3 per kilogram.[28] Significantly, blue hydrogen production is far more cost effective than green hydrogen and could be deployed in shorter timeframes than a large scale green hydrogen solution.

Commonwealth policy settings are currently focused on providing financial support for green hydrogen production via the Hydrogen Headstart program (total budget $4 billion[29]) and the Hydrogen Production Tax Incentive (estimated budget cost of $6.7 billion[30]), both developed under the Future Made in Australia (FMIA) framework.

While green hydrogen will likely be critical in future decades, for the coming period (including to 2035 which aligns to the Commonwealth's new Nationally Determined Contribution under the Paris Agreement), blue hydrogen is the more immediate opportunity for the Australian economy. Accordingly, directing support including funding to CCS solutions would be both more impactful in terms of near-term emissions reduction and a materially more cost-efficient way to drive industrial emissions abatement.

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[26] 2022, WesCEF: Wesfarmers Chemicals, Energy and Fertilisers Decarbonisation Journey
[27] Productivity Commission, 2025. Investing in cheaper, cleaner energy and the net zero transformation – Interim report.
[28] Costs are based on WesCEF estimates. Costs will vary on a project-by-project basis and are determined by location and other project attributes.
[29] Hydrogen Headstart program | Australian Government
[30] Hydrogen Production Tax Incentive Consultation Paper | Australian Government

Importantly, support for CCS could establish common user infrastructure assets that remain economic for an extended useful life. The calculation and publication of national carbon values to inform decision making (as proposed by the Productivity Commission) would enable Government to direct funding to least-cost abatement solutions in this context.

Unfortunately, despite its cost effectiveness relative to green hydrogen, there is no material policy support from the Commonwealth for blue hydrogen. This puts Australia at a disadvantage to other major economies (such as the United States, the European Union, Japan and South Korea) where policy incentives are generally technology agnostic and support deployment of CCS solutions and other strategies. At a time when the focus should be on decarbonisation at scale, current policy settings incentivise high-cost – not least-cost – pathways to industrial decarbonisation, which is both impeding the journey to net zero and damaging domestic industry.

Policy recommendations to unlock investment in CCS projects include:

- Establishing an incentive mechanism such as a Contract for Difference (CFD) scheme[31] (as used in the United Kingdom, Europe and Japan) or tax credits for industrial emissions (e.g., similar to the 45Q tax credit in the United States); and
- Direct grant funding or co-investment by Government in projects and shared infrastructure (such as pipelines and hub infrastructure) to help overcome commercial barriers to CCS developments.

Recommendation 15 – Address carbon leakage risks to ensure they do not undermine Australia's decarbonisation efforts and jeopardise significant Australian industries, driving them offshore

Carbon leakage refers to the act of businesses relocating production (and emissions) to jurisdictions with more lenient emissions policies and pricing regimes, to avoid the cost of abating emissions or paying an emissions penalty. This effectively offshores emissions to countries with relatively weak climate policy settings, resulting in higher overall global emissions (undermining international efforts to address climate change) and jeopardising domestic businesses that are more emissions-aware (which cannot compete with producers where no cost is attached to emissions).

In the absence of policy mechanisms to address carbon leakage in Australia, there is a risk that increased production costs caused by the Safeguard Mechanism will make emissions-intensive imports from other jurisdictions more cost competitive for domestic customers. In these circumstances, customers will likely opt to import cheaper, more emissions-intensive products, instead of buying local, lower emissions products covered by the Safeguard Mechanism. It may also incentivise investments in production (including by incumbents in Australia) in jurisdictions with weaker climate policies, instead of Australia.

Ammonia, ammonium nitrate and sodium cyanide are products manufactured by WesCEF's Kwinana operations that are either directly or indirectly impacted by the Safeguard Mechanism and exposed to carbon leakage risks. Imported and locally sourced inputs (including natural gas) used in the manufacture of WesCEF's products are also affected by the Safeguard Mechanism and could heighten carbon leakage risks. In turn, production costs arising from the Safeguard Mechanism are being factored into investment decisions for new or expansion projects, including WesCEF's consideration of options for future ammonia production.

The table below shows a real-world example of how carbon leakage might inform WesCEF's consideration of options to expand its local ammonia production capacity. Currently, half of WesCEF's ammonia is manufactured at a Safeguard Mechanism-covered facility, while the other half is imported and not subject to any emissions-related costs.

Scenario	Source of WesCEF ammonia sales		Projected FY50 annual carbon cost[32]
Current state	50% manufactured Incurs emissions cost	50% imported No emissions cost	$120 million
Option 1	100% manufactured		$240 million
Option 2	100% imported		$0

[31] Contracts for Difference: the Instrument of Choice for the Energy Transition 2024 | Oxford Institute for Energy Studies
[32] Cost calculated at Safeguard Mechanism price cap ($ nominal).

Additional carbon costs (including through the operation of the Safeguard Mechanism) would tip the scales making imported ammonia lower cost than locally manufactured product. The absence of an effective carbon leakage policy disincentivises investment in local manufacturing capacity and encourages an import-only / offshore production operating model. Levelling the playing field for domestic manufacturers requires the introduction of policy mechanisms to address carbon leakage risks for Safeguard Mechanism covered facilities and associated products. This includes the introduction of a CBAM and mechanisms to overcome the commercial barriers to industrial emissions abatement solutions such as CCS.

Recommendation 16 – Provide greater flexibility in the Safeguard Mechanism

The cost of offsets for Safeguard-covered entities is capped at $75 per ACCU in FY2024, increasing by two per cent in real terms per annum to 2050. This price cap is a key commercial consideration when assessing emissions abatement opportunities. It is generally used as a benchmark for comparing the merits of alternative abatement opportunities.

The pending 2026-27 Safeguard Mechanism review is appropriate given the need to regularly review and adjust policy mechanisms to ensure they are efficient and meeting their objectives. Based on reporting, reducing the eligibility threshold to 25,000 or 50,000t CO_2e p.a. will be considered in the upcoming Safeguard Mechanism review.

In our view, key policy issues and gaps must be addressed before any change is made to reduce the threshold, applying the Safeguard Mechanism to more facilities and / or industries.

Any consideration of a lower threshold must consider smaller facilities' capacity to meet the administrative and reporting requirements of the Safeguard Mechanism, and the feasibility and cost of real abatement solutions at these facilities. Premature application of the Safeguard Mechanism to smaller facilities or additional industries may result in an overreliance on offsets (rather than abatement), to achieve emissions reduction targets.

Under its current design, the Safeguard Mechanism is effective and working to deliver a net emissions reduction trajectory among Australia's largest emitters. However, it does not have the right incentive structure to drive investment in industrial emissions abatement solutions – as compared to offsetting. Complementary policies are required to ensure the Safeguard Mechanism achieves its objectives. As noted above, this includes policy mechanisms that incentivise investment in measures like CCS deployment and that mitigate the risk of carbon leakage risk (e.g. a CBAM), for Safeguard-covered facilities and products.

In the absence of complementary policy measures, there is a risk that the Safeguard Mechanism will incentivise tree planting and the purchase of ACCUs rather than real emissions abatement. In addition to the complementary policies already mentioned, options to enhance the Safeguard Mechanism that should be considered by the Commonwealth include:

- Allowing banking of SMCs beyond 2030, to provide a greater incentive to invest in abatement projects. The timeframe for banking should be sufficient to encourage emitters to implement larger, long term abatement solutions to meet their Safeguard Mechanism obligations, while not disincentivising ongoing investment in real abatement solutions; and

- Establishing a two-tiered system whereby real emissions abatement at the source receives a higher value SMC or a SMC multiplier, relative to net emissions reduction achieved through the use of offsets. If the Safeguard Mechanism threshold is lowered in future, this two-tiered system could provide additional flexibility to allow SMCs to be traded between larger emitters and smaller facilities with limited abatement options.

Wesfarmers also notes that the Safeguard Mechanism's trade-exposed baseline-adjusted (TEBA) provisions apply at a facility level whereas often specific products manufactured within a facility are trade exposed, even if the facility as a whole is not trade exposed. This issue needs to be resolved so multi-product facilities are not put at a competitive disadvantage to single-product facilities. The Department of Climate Change, Energy, the Environment and Water Carbon Leakage Review and the Productivity Commission have both recommended the removal of TEBA provisions if the Commonwealth introduces a CBAM for Safeguard

Mechanism-covered products. Wesfarmers agrees that the need for TEBA provisions falls away if an Australian CBAM is introduced for Safeguard-covered products.

Priority area 6 – Enabling the responsible use of Artificial Intelligence

6.1 Key issues

The role of AI in increasing Australia's productivity is discussed in the Productivity Commission's "Harnessing data and digital technology" Interim Report.

For Australia, the CSIRO has assessed the potential contribution of AI to the national economy at up to $315 billion by 2030.[33] Significantly, Australia is already being outpaced by other countries (like the United States, the United Kingdom, Singapore and China) that are investing heavily in AI research, infrastructure and commercialisation.

As AI technologies rapidly transform global industries, Australian businesses must adopt AI-driven solutions to remain competitive. Already it is clear that responsible use of AI is a critical enabler of increased efficiency and productivity, and that AI provides meaningful opportunities to strengthen the team member experience and customer propositions. It will be important for Australian businesses to effectively implement AI technologies across diverse sectors, in ways that are ethically responsible and compliant with Australia's emerging AI regulatory environment, to advance strategy and support long-term outcomes for stakeholders.

For Government, failure to enable effective adoption of AI throughout the economy would bring significant risks including:

- In the short term, foregone efficiency and productivity opportunities, with associated impact on near term economic performance; and
- Within three to five years, appreciable adverse impacts on the competitiveness of many domestic businesses, in turn jeopardising their long-term sustainability.

6.2 Reform recommendations

Wesfarmers broadly supports the draft recommendations outlined in the Productivity Commission's "Harnessing data and digital technology" Interim Report. In most instances, existing frameworks can be adapted to accommodate AI. Unnecessary new regulation will put at risk the many diverse economic and social benefits that AI can provide and exacerbate the risk that Australia is uncompetitive compared to our global peers. Wesfarmers also supports the submission made to the Productivity Commission by the Business Council of Australia on the Interim Report.

Recommendation 17 – Build on existing frameworks, rather than introduce AI-specific regulation

As a first and urgent priority, the Commonwealth should comprehensively map existing laws with a known application to AI then consolidate areas of overlap or conflict, to reduce the compliance burden.

This includes leveraging the technology-neutral, principles-based design of the *Privacy Act 1988* (Cth), which has generally meant it remains relevant since it was extended to the private sector in 2001. With the emergence of AI and data-driven technologies, a review and reform are warranted to ensure the framework keeps pace with modern expectations while preserving the flexibility that underpins its durability.

The Commonwealth should also develop a "one-stop-shop" AI compliance framework, to clearly establish how existing consumer protection, privacy, competition and safety laws apply to AI applications.

This approach would support the responsible use of AI, building the foundational capabilities needed for Australia's AI competitiveness. It would also reduce barriers, regulatory uncertainty and compliance costs

[33] Grant funding to bring AI and emerging technology graduate students into regions | Australian Government

associated with AI use, particularly benefiting SMEs that cannot afford large legal teams to navigate multiple regulatory frameworks.

To that end, Wesfarmers recommends:

- AI-specific regulation should only be considered as a very last resort; and
- Government should pause and consult broadly on all steps to implement mandatory guardrails for AI use, noting that the case for Government intervention has not been made.

Regarding the merits of outcomes-based versus controls-based compliance, Wesfarmers supports less prescriptive compliance regimes to allow a greater focus on minimising harm and meeting community expectations.

Recommendation 18 – Ensure AI and other technology capabilities are prioritised for immigration programs

Visa pathways – including for students – should prioritise applicants with AI and technology, data and digital skills or seeking to undertake studies in these areas at Australian universities, recognising the criticality of these skills for the Australian economy.

Over many decades, history has shown that immigration pathways are a powerful tool for Australia to boost the skills it requires for critical industries.

In the case of AI, measures that enable the inflow and development of international talent will help to ensure Australia can better realise the economic opportunities AI might deliver.

There are also opportunities to implement visa pathways which support other critical capabilities including in the housing sector and decarbonisation.