Chemistry Australia
The Business of Chemistry Essential for Life

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Ms Danielle Wood
Commissioner
Productivity Commission

5 Pillars Review – Consultation – Chemistry Australia Submission

Chemistry Australia welcomes the opportunity to provide the following contribution to the Productivity Commission's 5 Pillars Review consultations.

Why chemistry matters

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 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 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.

Response to Productivity Commission Proposals

Chemistry Australia strongly supports the review's regulatory reform, workplace skills and education recommendations. The Commission is correct in finding that overburdensome regulation is a significant disincentive for investment and a brake on productivity growth. Restrictions on skilled workers and educational mobility are equally a drag on productivity.

However, we have significant concerns about the proposed net cashflow tax (NCT) and the expansion of the Safeguard Mechanism.

The NCT will increase complexity and regulatory burdens, reduce Australia's investment attractiveness, and create unfair sectoral distortions. In contrast, we advocate for proven approaches, such as instant asset write-offs, that achieve the same investment incentive aims without adding complexity or cost to the budget.

Critically, Australia is no longer on the radar of global chemical companies as an investment destination due to high capital and energy costs, as well as excessive regulatory burdens that delay projects and increase investment uncertainty. We are particularly concerned that the NCT will have a significant impact on renewable energy and gas investment, and increase energy and feedstock costs - the most critical issues confronting Australia’s chemical industry. The proposed NCT will reinforce the global belief that Australia is not an investable destination, thereby accelerating the shift of mobile capital to more competitive countries.

On climate policy, we support technology-neutral approaches but urge caution regarding the expansion of the Safeguard Mechanism, which also increases regulatory burdens and requires costly administrative effort from the government and affected industries, potentially delivering emission reductions by triggering facility closures and the offshoring of manufacturing.

NCT

The Commission has proposed introducing a 5% NCT alongside reductions in company tax rates for businesses with a turnover of under $1 billion. While Chemistry Australia acknowledges the Commission's objective to encourage investment through immediate expensing of capital outlays, we have significant concerns about this approach and its impact on investment in our sector.

A big stick with little carrot

The Commission has correctly identified that Australia's complex tax regime and high corporate income tax rates act as disincentives for business investment, making Australia less attractive to international investors. However, the proposed solution -introducing an additional tax - appears counterproductive to these stated objectives.

The NCT represents a big stick that will hit most businesses every year, while offering an occasional carrot only in extraordinary years when capital expenditure is unusually high. For most companies in most years, this policy delivers punishment rather than reward, making it fundamentally misaligned with the Commission's objectives for encouraging investment.

Disastrous for chemical manufacturing investment

Chemical manufacturing investment is particularly vulnerable to the NCT. Chemical plants typically require enormous upfront capital expenditures - often hundreds of millions or billions of dollars. Once operational, these facilities have asset lives of 30-40 years with relatively modest annual capital expenditure for maintenance and incremental improvements.

The NCT would therefore penalise chemical manufacturers throughout most of the operational life of their assets, creating a substantial additional cost burden that competitors in other jurisdictions would not face.

The exclusion of interest and financing costs from the NCT expense calculation magnifies the negative impact on chemical sector investments that are financed over decades.

This is particularly problematic for emissions-intensive chemical facilities that have recently invested heavily in emission reduction, energy efficiency improvements, and process optimisation to meet Safeguard Mechanism requirements. These facilities, having already committed substantial capital to emissions reduction, would face the full burden of the NCT with limited ability to generate offsetting capital expenditure deductions. The result is a policy that simultaneously punishes past responsible investment while making future reinvestment in Australian chemical manufacturing less attractive to both domestic and international investors.

If an NCT were to proceed, capital expenditures incurred within a 5- to 10-year window before its introduction should be deductible in the first year of the NCT. This would prevent the policy from unfairly penalising businesses that have made responsible investments in recent years, particularly those investing in emissions reduction technologies to meet government policy objectives.

Increased energy costs

Similar issues affect renewable energy and gas infrastructure projects, which follow similar investment patterns to chemical manufacturing. That is, massive upfront capital expenditure followed by decades of operation with minimal ongoing capital expenditures.

While the immediate expensing of capital costs may provide brief benefits during the construction phase, the NCT would heavily penalise the next 20-25 years of operations, as there is minimal new capital expenditure to offset the added 5% tax burden. This is particularly problematic given that most energy projects use project finance structures with high debt-to-equity ratios, and interest and financing costs are not deductible under the proposed NCT.

For large GHG-emitting chemical manufacturers seeking to transition to net zero, access to competitively priced renewable energy and affordable gas feedstock during the transition period is essential. The NCT could slow both renewable energy deployment and gas infrastructure investment, while increasing energy costs, directly undermining the chemical sector's ability to decarbonise while remaining globally competitive.

The proposal fails to comprehend Australia's economic ecosystem.

While medium-sized businesses might appear to benefit from the proposed tax rate reductions, many of these businesses are suppliers to larger enterprises that would be heavily penalised by the NCT. If their larger customers face increased tax burdens and decide to relocate operations offshore or reduce Australian activity, their medium-sized suppliers would see their businesses contract regardless of any tax benefits they might theoretically receive. This interconnected effect means that the apparent benefits for smaller businesses could be entirely negated by the loss of their major customers, creating an economy-wide contraction rather than the intended investment stimulus.

Risk of corporate relocations

The proposed NCT creates risks for Australian companies with significant export revenues and for subsidiaries of multinational corporations that serve the Asia-Pacific region from Australia. For companies with regional sales exceeding $1 billion, the combination of the existing 30% corporate tax rate and the additional 5% NCT makes relocation to places like Singapore increasingly attractive, where the headline corporate tax rate is 17% and various incentive schemes can further reduce effective rates.

This risk is amplified by the growing use of artificial intelligence and digital technologies, which enable companies to relocate high-value functions, such as regional headquarters, supply chain management, and customer service operations.

The potential wave of corporate relocations triggered by the NCT would directly contradict the Commission's productivity objectives.

Capital Strike Risk

The uncertainty surrounding the design and impact of an NCT is likely to delay rather than encourage investment decisions. Questions about global alignment with Australia's existing double taxation agreements and application to mergers and acquisitions create additional uncertainty that could discourage international investment.

Inflationary tax on consumption

The NCT would effectively function as an additional consumption tax for chemical distributors, retailers, and other value-adding businesses that incur minimal capital expenditures, as the 5% NCT would apply to most of their gross margin.

This additional tax burden will inevitably be passed through to consumers in the form of higher prices, creating inflationary pressures that will increase cost-of-living burdens at a time when households are already facing financial stress. The result would be a regressive impact on sectors that are already facing pressures from rising costs and changing consumer behaviour, while simultaneously creating competitive imbalances that could undermine the very productivity gains the Commission seeks to achieve**.**

Chemistry Australia's preferred solution: Instant asset write-off

Chemistry Australia has consistently called for the introduction of an instant asset write-off for all capital investments, without caps or thresholds, under the existing income tax system. This approach would achieve the Commission's stated goals without creating additional complexity and compliance burdens. Importantly, instant asset write-offs have minimal long-term impact on the budget because they are essentially tax-neutral over the life of an asset. They bring forward depreciation deductions that would otherwise be claimed over multiple years. This contrasts sharply with the cashflow tax, which represents a genuine additional tax burden that compounds over time.

Regulatory Reform

Chemistry Australia strongly supports the Commission's regulatory reform proposals, which align closely with our policy priorities, including:

- Whole of government commitment to reduce regulatory burden.
- Greater scrutiny of regulation through an independent agency that focuses on the economic cost and benefit.
- Improved national harmonisation.
- Greater risk tolerance in regulatory decision-making.

We call for the establishment of an independent agency to undertake regulatory impact assessments. This will ensure that the impact of regulations is assessed thoroughly, impartially and through a whole-of-the-economy lens. Under current arrangements, agencies evaluate the economic effects of their own regulatory proposals, creating an inherent conflict of interest. In addition, few, if any, agencies have suitably qualified staff to undertake this analysis.

Cooperative regulatory schemes across Australia’s nine jurisdictions, such as dangerous goods regulation, workplace health and safety, poison scheduling and environmental protection, often lack a single point of ministerial accountability, resulting in poor outcomes for both industry and the community. Greater scrutiny and accountability are needed to ensure that these cooperative schemes deliver outcomes that are in the national interest and not impacted by narrow, siloed approaches to regulation.

Current examples of such approaches to regulation that we are currently dealing with include:

- State and territory opposition to a National Transport Commission (NTC) recommendation to remove the emergency information panel (EIP) requirement for intermediate bulk containers (IBCs) under the Australian Dangerous Goods Code.

The EIP is unique to Australia and out of step with global transport practice and regulation. It requires imported IBCs to be relabelled for transport within Australia. The NTC concluded that the relabelling requirement costs industry $180 million per annum, delivers little benefit and represents a significant workplace health and safety risk for workers undertaking the relabelling activity. Yet, states and territories are resisting the change.

- Therapeutic Goods Authority (TGA) poison scheduling proposals to impose licensing requirements on the sale, storage, transport and use of caustic soda in concentrations greater than 5%. If implemented, this requirement would effectively ban the sale of everyday cleaning products in supermarkets and hardware stores. However, its potential impact on the industry would be devastating. Industrial-strength caustic soda is used across many industries, including paint making, aluminium production, mining, agriculture and water treatment. The proposed licensing requirements would impose significant costs and burdens on industrial users, delivering no identifiable benefits.

- Safework Australia's review of workplace exposure limits that:

    - fails to identify a problem with the current standards for most substances covered by the review;
    - is expected to place significant restrictions on pathology activities and potentially extend cancer diagnosis by as much as a month. This would delay treatment for cancer patients and threaten the lives of Australians.
    - ignores the Commonwealth Department of Health's health-based assessment that provides recommendations on the appropriate limits for titanium dioxide.
    - continues to move forward with reductions in limits that impose multi-billion-dollar costs on industry, even when no benefits are found or when the benefits are significantly less than 1% of that cost.
    - will potentially result in the closure of a copper recycling and recovery operation that produces value-added copper compounds, which are critical inputs to Australian agriculture and timber treatment industries, killing off a key element of the government's circular economy ambitions and disrupting the supply chain supporting Australia's treated-timber industry. The proposed copper levels are also expected to negatively impact base metals extraction, where copper compounds are regularly used for cell flotation minerals recovery.
    - proposes limits for chlorine that are not measurable or practicable across a range of activities and which, if implemented, impact water authorities' supply of safe drinking water, councils' ability to operate public pools and effectively ban the use of chlorine-based sanitisers and cleaning products in dairies, food and beverage production and workplace and public toilets.

Climate and Energy Transition

Chemistry Australia supports many of the Commission's climate policy recommendations, but has specific concerns about proposals to expand the Safeguard Mechanism to cover emitters over 25,000 tCO_2e/year, including:

- The government has previously considered and rejected this threshold reduction;
- Implementation would be costly for both government and industry, requiring the establishment of emissions intensity factors and baselines across numerous sectors and facilities;
- If Carbon Border Adjustment Measures (CBAMs) are implemented, they would need to cover these significantly more trade-exposed facilities, complicating trade; and
- Inclusion in the Safeguard Mechanism may be the tipping point for facility operators. They may shutter operations or relocate offshore to avoid the administrative costs of establishing their facilities under an expanded Safeguard Mechanism.

Regulatory Duplication

We strongly support the Commission's recommendations to remove duplicative state, territory, and Commonwealth regulatory approvals for emissions-reducing technology investments and projects.

Technology Neutrality

The Commission's support for technology-neutral emissions incentives aligns with Chemistry Australia's advocacy for technology-neutral approaches to decarbonisation, recognising that different technologies may deliver effective and lowest-cost emissions reductions in different locations and business operations.

Skills and Education

We support the Commission’s recommendations to enhance recognition of prior learning and improve skilled worker mobility. These reforms would not only improve national productivity, but also provide increased opportunities for workers and families to access better jobs, higher wages and greater economic security. By reducing barriers to occupational entry and facilitating faster transitions across roles and regions, these reforms should unlock workforce potential, support economic inclusion, and enable businesses to access the skills they need.

Conclusion

Australia's chemistry sector stands at a critical juncture, with Australia no longer on the radar of global chemical companies as an investment destination due to high capital and energy costs, as well as excessive regulatory burdens that delay projects and increase investment uncertainty.

While the Productivity Commission has correctly identified key barriers to investment and productivity growth, some proposed solutions risk exacerbating rather than solving these challenges. Our sector requires policy frameworks that genuinely reduce complexity, lower effective tax burdens, lower energy costs, and provide certainty for long-term investment decisions.

Chemistry Australia urges the Commission to reconsider the NCT proposal and focus on proven approaches to incentivise investment within existing tax frameworks. The stakes are too high for our industry and the broader Australian economy to experiment with untested tax mechanisms that may drive investment offshore.

Yours sincerely

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About Chemistry Australia

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).