AUSTRALIAN INVESTMENT COUNCIL

31 March 2022

Productivity Inquiry Secretariat
Productivity Commission
4 National Circuit
Barton ACT 2600

Submission – Review of Australia's productivity performance

Dear Commissioners,

As the industry association for private capital in Australia, the Australian Investment Council is pleased to present its submission to the Productivity Commission for its Inquiry into Australia's productivity performance.

Private capital investment has played a central role in the innovation, growth and expansion of thousands of businesses and represents a multi-billion-dollar contribution to the Australian economy. Our members are the standard-bearers of professional investment and include private equity (PE), venture capital (VC) corporate venture capital (CVC) and private credit (PC) funds, alongside institutional investors such as superannuation funds, sovereign wealth funds and family offices as well as leading financial, legal and operational advisers. Our members include both Australian domestic and offshore-based firms, who in turn invest capital on behalf of millions of Australian families and attract capital from passive overseas investors.

Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based PE and VC assets under management reached $43 billion in 2021[1] with an additional $13 billion in equity capital available to be invested in the short-term. Companies that partner with private capital fund managers contribute one in every nine new jobs in Australia and provide 2.5% of our nation's GDP.[2] The private capital industry is a significant and growing contributor to, and driver of, Australia's economic recovery and the development of Australia's industries of the future.

Given the impact of the COVID pandemic and the uncertain times that lay ahead, and as a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture, it is vitally important for our economic future, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors.

To regain economic momentum and evolve our domestic economy, the Australian Investment Council has identified a number of key policy priorities which are detailed below. Focusing on these areas will help underpin the next phase of prosperity and income growth for all Australians.

More specifically for the private capital industry, the Council has identified policy areas where Government action can assist the industry to continue to support investment into high-growth potential Australian businesses. These areas, explored in detail in this submission, focus on:

1) Addressing skills shortages;
2) Supporting innovation; and
3) Maintaining a steady flow of investment capital.

The Council looks forward to participating in any future discussion about the themes set out in this submission as part of the Productivity Commission's inquiry process. If you have any questions about specific points made in our submission, please do not hesitate to contact me or our policy team at policy@aic.co.

Yours sincerely

Yasser El-Ansary
Chief Executive

[1] *Preqin & Australian Investment Council Private Capital Yearbook, April 2022*
[2] EY independent analysis of the Economic Contribution of Private Capital to the Australian Economy, March 2022

REVIEW OF AUSTRALIA'S PRODUCTIVITY PERFORMANCE SUBMISSION

AUSTRALIAN INVESTMENT COUNCIL

The voice of private capital

Contents

1. Summary of Recommendations

The Council's recommendations are outlined below:

Maintain a steady flow of investment capital

- Regularly review the foreign investment framework to ensure it continues to attract investment capital amidst changes to global uncertainty and disruption caused by future pandemics or issues that lead to border closures.
- Consider recommendations for improving the operation of the Foreign Investment Review Board (FIRB) approval regime to improve decision turn-around times.
- Fast-track the implementation of a Limited Partnership Collective Investment Vehicle (LP CIV) as the major outstanding component of a globally competitive collective investment vehicle (CIV) and fund regime.
- Improve existing VCLP and ESVCLP vehicles through adopting and implementing the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes as a priority.

Keep borders open: managing future pandemics

- Maintain a flow of non-citizen skilled migrants, tourists and students to assist Australia's economic recovery now the pandemic settings have moved to living with the virus.
- Build further dedicated quarantine facilities similar to the one in Howard Springs in the NT and the facility being constructed in Mickleham, Victoria, close to all major international airports and health facilities to deal with any future variants of COVID19 or any other infectious diseases that may emerge in the future.
- Create a new Commonwealth agency to specifically deal with future human biohazards, similar to the US Centre for Diseases Control and Prevention, in order to provide uniformity in approach across the country, and to provide national tracking and tracing capability for infections.

Secure supply chains

- Continue to invest into national infrastructure to reduce bottlenecks and ensure goods can flow through our ports, rail and road networks safely, quickly and efficiently.
- Fast-track digital transformation to gain more visibility over supply chain data.
- Invest in Australian manufacturing and component sourcing capability in essential products which may be susceptible to global supply chain disruption.

Skills and migration

- Introduce incentives for investment into non-capital city regions and areas most in need based on similar model to the United States' economic 'Opportunity Zones'.
- Boost offshore marketing of the Global Talent programs, alongside the GBTAT, to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.
- Extend visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.
- Further embed STEM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of 'STEM schools'.
- Develop a national education program to fast-track STEM skills development in secondary schools.
- Map skills that can be translated from a tertiary education level to fast-track technology skills development in Australia.
- Look to expand the capability of the Digital Technologies Academy planned for Adelaide to include the secondary education sector.

The Innovation economy

- Provide increased support for Corporate Venture Capital and Innovation Labs through the introduction of new programs to attract greater public-private investment into high growth Australian companies and increased incentives for Australian companies to take risks with new and emerging technologies.
- Utilise the R&D Tax Incentive Roundtable to ensure the guidance material is reviewed with the view of developing single and well-understood repository of information for the Research & Development Tax Incentive.
- Introduce matching grants for R&D to boost innovation and growth.

- Implement a 'gold standard' Patent Box to support the innovation economy. We note that the Government has announced in the 2022-23 Budget an extension of the regime to agricultural and clean-tech technology. However there are many other technologies which could benefit from holding the intellectual property on-shore.
- Continue to work with industry and government to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the *Statement of Principles for Australian Innovation Precincts Report* recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.
- Establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

Grow digital capability

- Consider the introduction of a simpler direct additional tax credit to enable Australian companies to retool by investing in software and other digital capabilities. We note that the Government has announced a measure in the 2022-2023 Budget for addressing the needs of small businesses with a turnover of less than $50 million per annum.
- Invest in further NBN upgrading of premises from FTTC and HFC to FTTP as more people work from home. Again, we note that the Government has flagged improvements for regional and peri-urban areas but not urban areas which have been connected to the NBN with FTTC and HFC.

Work towards net zero

- Reduce red tape for businesses investing in new technologies to support the transition to clean energy.
- Support clean energy initiatives for businesses and households.

Remove tax inefficiencies

- Consider further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract talent to Australia.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

2. Overview

More than ever, ongoing shifts in the global economy are highlighting the need for government, industry and businesses to work together to ensure that Australia is ready to tackle complex problems and take hold of the big opportunities available to us. Collectively, we face major challenges – including political instability and global trade issues, the increasing pace of technological change, and changes to monetary policy around the world that could have significant impacts on financial markets and the overall economy.

Positive economic fundamentals such as low unemployment (potentially also driven by closed borders during the COVID-19 pandemic), and stable economic growth shouldn't be discounted, but many businesses face challenges such as accessing debt capital and lower business confidence. How to lift productivity and invest more in skills and talent, productive capacity, and technology are just some of the questions that policymakers and industry leaders alike must turn their minds to.

The Productivity Commission has been asked by the Federal Government to conduct an inquiry into Australia's productivity performance and to make recommendations on reforms that will underpin improved productivity growth against a backdrop of Australia's COVID-19 experience.

Productivity is a key driver for increasing real wages, living standards including work and leisure choices, the consumption of goods and services and the capacity to provide infrastructure and public services. Living standards can largely be explained by productivity growth through a range of sources such as technological changes, the accumulation of capital, education and workforce skills, innovation and a more efficient allocation of labour and capital across the domestic economy.

Given the impact of the COVID pandemic and the uncertain times that lay ahead, and as a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive productivity growth and job creation. At this critical juncture, it is vitally important for our economic future, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors.

To regain economic momentum and evolve our domestic economy, the Australian Investment Council has identified a number of key policy priorities which are detailed below. Focusing on these areas will help underpin the next phase of prosperity and income growth for all Australians.

The Australian Investment Council has put forward recommendations in this submission which are focused on regenerating productivity growth across every sector of the Australian economy. These recommendations focus on the themes of:

- Keeping Australia's borders open
- Addressing skills shortages;
- Supporting innovation
- Maintaining a steady flow of investment capital
- Removing taxation inefficiencies.

3. The productivity challenge

Australia's future prosperity and living standards rely on a revival in productivity growth. The 2020 Intergenerational Report shows that productivity has slowed to an annual average of 1.2 per cent since 2005 and needs to return to 1.5 per cent to be consistent with the 30-year historical average to 2018-196[3] .

To positively impact productivity, the 2019 House, Income and Labour Dynamics in Australia (HILDA) survey showed that there is a real need to move away from a reliance on commodities and property to a pro-growth productivity agenda that will provide real, sustainable growth. Such an agenda will shift productivity from its current downward trajectory which, according to analysis by Trading Economics, shows Australia as one of only two G20 countries to score below 100 points for productivity.

It is clear that Australia needs to look beyond the resources and property sectors for productivity growth. Business investment has dramatically decreased after the end of the 2000s-2010s mining boom. Australia's national comparative advantage will increasingly be built on the quality of our ideas and our human capital. This will help to address skill shortages and the flow of new technologies and businesses.

The pandemic accelerated the digitalisation of businesses in a matter of months, which under 'normal 'conditions' may have taken years, as many Australians worked from home and businesses adapted to e-commerce solutions. This may have a positive impact on productivity and counter balance the effect of border closures and the downturn in migration. This has demonstrated the ability of the nation to pivot during a time of crisis.

Australia now has an opportunity to build upon the productivity-enhancing impact of businesses underpinned by technology with robust policies that support the growth and expansion of businesses aligned with core focus industries of the future. These will need to be underpinned by pillars to build resilience and support a stronger, smarter, better Australia.

After 28 years of continuous economic growth, a GDP which has performed well compared to other advanced countries, and a relatively high standard of living, there is much work to be done to transition Australia into a more knowledge- based, high value-adding economy.

As a nation, Australia is still largely beholden to an old-world economy that has not always kept pace with the development in complexity and technological transformation of other economies.

This is particularly apparent in measures of economic complexity when Australia ranked 86th globally, the lowest of all developed economies, and lower than many developing countries – according to the latest rankings developed by Harvard University's Center for International Development (Figure 1). Since 1995, when Australia was placed 55th globally for economic complexity, the nation has dropped 31 places to 86th. Australia has lost considerable sovereign manufacturing capability since the 1980s and 1990s and the economy was largely supported by the success of the resources sector.

Furthermore, Harvard University concludes that "Australia is less complex than expected for its income level. As a result, its economy is projected to grow slowly"[4] with Australia's growth projection to 2029 ranked 101st out of the 133 countries assessed.

This outcome is backed by the 2019 Global Innovation Index (GII), which ranked Australia 22nd globally, down from 20th in 2018, behind nations such as the United States, the Republic of Korea, China and Iceland. "The 2019 GII found Australia to be weak across knowledge and technology outputs, creative outputs, and business sophistication, relative to the top 25 innovation

[3] *2021 Intergenerational Report,* The Treasury, Australian Government
[4] Harvard University's Center for International Development, *Atlas of Economic Complexity, October 2021*

nations globally."[5] This shows that we need to do much more if we want to build and future-proof a sustainable and growing economy that can attract talent and capital from international markets.

It is therefore important that the economic challenges that Australia faces are recognised and tackled through leadership in long-term and visionary policy reforms.

In addition to falling behind on productivity, Australia has continued its decline in educational outcomes (Figure 2). Mathematics results in Australia are now below the OECD average[6] an increasing number of students are failing to meet the minimum national standard across writing, reading and mathematics.

It is therefore important that the economic challenges that Australia now faces are recognised and addressed through leadership in long-term and visionary policy reforms. The fact that Australia has not kept pace with the development in complexity and technological transformation of other economies should sharpen the focus on this agenda.

Industry as a whole has a role to play in informing and engaging with all sides of politics on these challenges. This includes the private capital industry, which invests in a wide range of Australian companies, be they early-stage tech start-ups or long-established agricultural or manufacturing businesses. It is only by working together that we can build a resilient future

Figure 1: Australia's Economic Complexity Index Ranking1995 to 2019

Source: The Growth Lab at Harvard University (2019) "Growth Projections and Complexity Rankings, V2"

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[5] Cornell University INSEAD, and the World Intellectual property Organizations, *Global Innovation Index 2019*

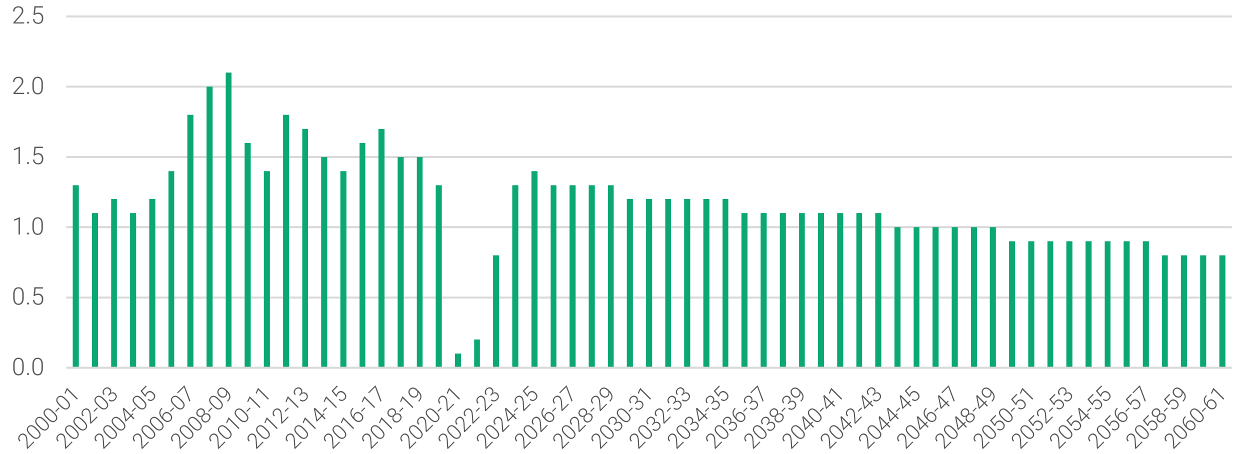
3.1 Investment capital and immigration – important economic levers

As a desirable destination for migration and investment, Australia has long been a net importer of both people and capital. However, during the past few years these important economic drivers have seen a reversal with net overseas migration in the year to June 2021 negative for the fifth consecutive quarter a net loss of 88,000 people, as well a net $74 billion of capital exported from Australia in September 2021.

While the pandemic and border closures can be partly attributed for the impact on these two critical economic levers, policies that shift the dial on this continued decline will be critical for Australia to effectively compete with other jurisdictions for people – as Australia's population growth continues to decline (Figure 2) – and investment capital into the future.

Australia's economy relies on a dependable and steady flow of foreign human capital and skilled migration to drive economic growth and job creation. It is therefore vitally important for the economy and Australian jobs, that businesses are able to quickly and efficiently access human capital and skills from domestic as well as offshore sources. The ability to retain skilled employees as borders reopen will also be vitally important as competitor jursdictions also look to attract skilled employees.

Figure 2 Australia's population growth 2000-2061



Source: 2021 Intergenerational Report, The Treasury, Australian Government June 2021

While the ongoing capacity to continue to attract foreign capital will be essential for funding new investments that will in turn create new high-value Australian jobs, this cannot be assumed. For example, much of the capital outflow, has been directed to the United States while investment from the US has declined over the past three years. In fact, Australia has fallen behind peers in attracting US investment and border closures have made due commercial, legal and financial diligence on cross-border acquisitions more difficult.

Challenges to increasing investment into the domestic economy have been further exacerbated by excess savings during the pandemic which is reflected in the account surplus since the June quarter 2019 averaging 2.6 per cent of GDP. While this account surplus is expected to reduce as the economy emerges from the pandemic, policies that focus on increased investment, rather than savings, will be required to boost economic growth. Increasing migration would help raise investment demand and fill skills and talent gaps in local businesses.

4. Improved performance due to the COVID-19 pandemic

As external market, geopolitical and pandemic forces are continuing to unfold, Australia's productivity and economic performance in the short to medium-term remains to be seen as pressures on the domestic economy will continue in less direct ways. Examples of where this may occur are structural shifts in healthcare including the ongoing management of the COVID19 virus; the uptake of vaccine boosters; border closures and the impact of self-directed lockdowns; a decrease in international student numbers in universities and increasing pressure for research commercialisation.

Maintaining a flow of non-citizen skilled migrants, tourists and students to assist Australia's economic recovery and take steps to restore Australia's border controls to pre-pandemic settings as soon as possible is an important element in the nation's recovery given that most of Australia is now regularly exposed to COVID-19 and that the health settings are being moved to "living with the virus" and COVID-Smart settings.

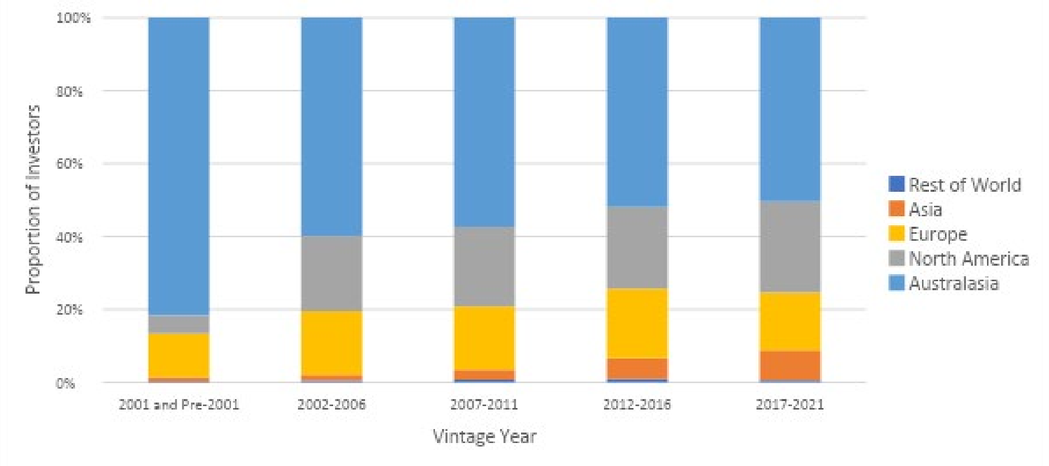
The pandemic accelerated the digitalisation of businesses in a matter of months, which under 'normal 'conditions' may have taken years, as many Australians worked from home and businesses adapted to e-commerce solutions. This may have a positive impact on productivity and counter balance the effect of border closures and the downturn in migration. This has demonstrated the ability of the nation to pivot during a time of crisis.

Australia now has an opportunity to build upon the productivity-enhancing impact of businesses underpinned by technology with robust policies that support the growth and expansion of businesses aligned with core focus industries of the future. These will need to be underpinned by pillars to build resilience and support a stronger, smarter, better Australia.

5. Australia relies on a flow of foreign capital

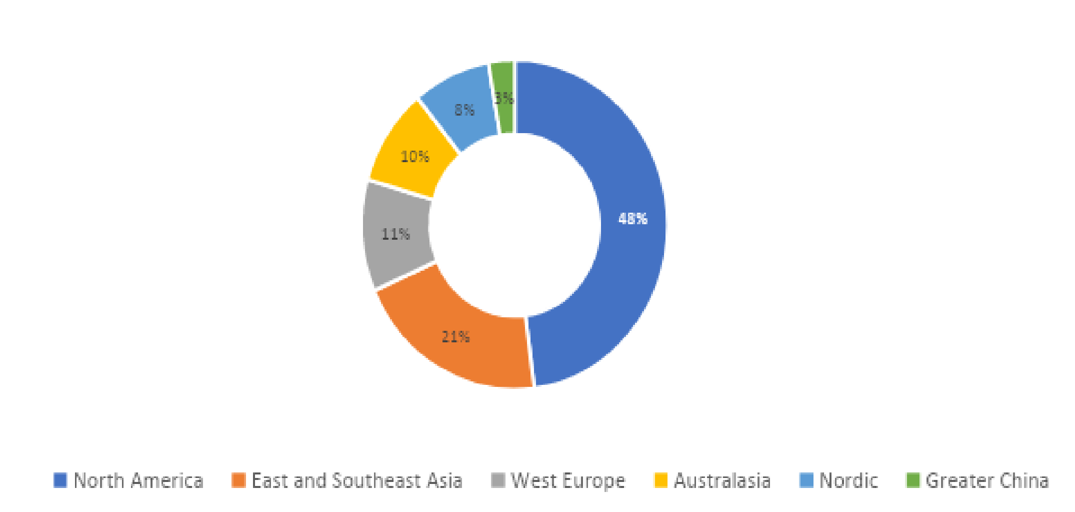
Foreign investment into Australia has grown over the years from just 18% of investors into Australian private capital funds two decades ago to almost half (49%) in the past five years (Figure 3). Australia is appealing to foreign investors for its relatively stable political environment, strong economy, robust governance, and dynamic market conditions. However, there is no room for complacency as Australia continues to compete head to head with more mature jurisdictions like the USA, UK and Canada who have more established track records in fundraising and larger scale due to a range of factors including bigger populations and economies and private capital ecosystems which have been operating much longer than Australia's.

Figure 3: Foreign investment in Australian Private Capital Funds[7]



Of the foreign investors North America accounts for 48% of the funds that have received foreign funding in the past five years (Figure 4) with many US and Canadian Institutional investors, particularly pension funds, having publicly expressed confidence in Australia and have been long-term investors in the country.

Figure 4: Foreign funding in Australia by region [8]



The Australian Investment Council is supportive of a comprehensive clear, predictable and efficient foreign investment framework which continues to support the flow of foreign capital that supports the growth of businesses and jobs in the innovation economy.

It is the Council's view that a continuous review of the foreign investment review framework is essential to ensure Australia's policy settings are globally competitive and do not deter foreign investment in light of global geopolitical uncertainty and economic recovery from the health impacts and lockdowns as a result of COVID-19.

Recommendations

- Regularly review the foreign investment framework to ensure it continues to attract investment capital amidst changes to global uncertainty and disruption caused by future pandemics or issues that lead to border closures.
- Consider recommendations for the improving the operation of the Foreign Investment Review Board approval regime to improve decision turn-around times.
- Work with industry to reduce the uncertainties in the tax treatment of private capital investment into Australian businesses.
- Fast-track the implementation of the new Limited Partnership Collective Investment Vehicle (LP CIV) as the major outstanding component of a globally competitive fund vehicle regime.
- Improve existing VCLP and ESVCLP vehicles through adopting and implementing the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes.

6. Maintaining a steady flow of investment capital

As a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture, it is vitally important for our economic recovery, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors to support the growth and expansion of existing businesses as well as the development of the new businesses and industries that underpin Australia's innovation ecosystem.

A strong investment regime anchored by policies that are commensurate with other jurisdictions is important for maintaining a stable and transparent investment framework that is attractive for domestic and foreign financial services providers to ensure that investment flows remain open, transparent and stable, thereby enabling our investment industry to continue to support portfolio companies during this time of heightened uncertainty.

However, the industry's ongoing capacity to continue to invest greater amounts of capital into Australian businesses, leading to the creation of new high-value Australian jobs, cannot be assumed – policy must continue to support, enable and encourage capital investment into the domestic market. While the private capital industry currently has more than $13 billion in available capital to support investment into new deals in the period ahead, the sector's ability to continue to grow the pipeline of funding available to high-growth potential Australian business over the coming years will be increasingly dependent on inbound capital from offshore investors.

Domestic capital works alongside foreign capital in providing the investment needed to support emerging and fast growth businesses. As the Australian private capital market has continued to grow and mature, domestic fundraising has improved in recent years as the ecosystem has built scale through a lived experience. However, there is still work to be done to continue to grow domestic fundraising capabilities.

To some extent, the challenges for funding for early-stage business - which may need funding to continue to develop their products or services - are greater than the later stage growth companies which tend to have established cashflows and are generally lower risk investments. However, Australia has produced a number of start-up companies such as Canva, Airwallex, Zoox and Safety Culture, which have been successful on a global scale, but when compared with other jurisdictions, there is scope for many more of these success stories. These are businesses that provide employment and contribute to economic growth.

In relation to capital flowing from Australian superannuation funds, whilst the objective of RG97 is to provide transparency to consumers on fees and costs, the prescriptive nature of the RG97 framework provides challenges for superannuation funds as

[7] Preqin & Australian Investment Council Yearbook 2022
[8] Ibid

pricing can be complex and multi-faceted. There is work to be done to simplify product disclosure statements and for RG97 to provide more flexibility for superannuation funds and investment funds covered by it.

The current regime makes it easier to go offshore to a global aggregator to invest offshore and then back into Australia. Size and scale of the pension system in Australia is an issue to the extent that commitments super funds want to make need to be large to match the size of the fund.

6.1 Foreign Investment Framework

Ensuring that the policy environment around foreign investment remains stable is one of the key ways in which the government can help maintain Australia's reputation as an attractive investment destination.

Uncertainty or perceived instability in policy structure around the foreign investment regime risks additional pressure in the already challenging current environment. The potential impact of this drag on investment and growth should not be downplayed. Nor should the impact on dampening collaboration and cross-pollination within Australia's economy. It is imperative that the Government carefully balances the current and future needs of Australian businesses against need to maintain confidence in the system from domestic and foreign investors.

6.2 International Competitiveness

Australia has an opportunity to develop an investment framework that attracts inbound investment, and is also conducive to providing reciprocal rights to invest into countries with sufficiently equivalent frameworks. Australia should ensure any Free Trade Agreements to include conditions that allow investment into the relevant country without onerous licensing conditions.

6.3 Limited Partnership Collective Investment Vehicle (LP CIV)

World-class, competitive CIVs are essential for building and expanding the pool of capital that can be attracted into the Australian economy. Accordingly, it is important that a flow-through, internationally best practice LP CIV – the globally accepted private capital vehicle of choice – be introduced as soon as possible, keeping in mind that the original introduction date of 1 July 2018 has not been met. Supporting the broader policy objectives of building Australia as a financial services hub, such a vehicle could transform the flow of capital into high growth Australian businesses, helping to facilitate Australia's transition to a knowledge-driven economy.

For many years the Council has urged the government and Treasury to prioritise the development of the LP CIV regime. Despite a commitment in the May 2016 Federal Budget to the introduction of a new LP CIV from July 2018, the most recent announcements in the 2018-19 and 2021-22 Federal Budgets did not include any specific references to the introduction of the LP CIV regime. It is unclear whether the LP CIV will be introduced and the whether the Government still has a commitment to the measure.

The Council has previously identified the proposed new LP CIV regime as an area of policy focus for private capital. A globally competitive LP CIV would have a significant and profound impact on the capacity of our industry to invest billions of dollars into great Australian businesses spanning all corners of the economy, and at all stages of development – small, medium and large scale – to help them realise their growth and expansion plans, and create new employment for the future.

Unlike the CCIV regime, the LP CIV regime does not require any extensive changes to the Corporations Act 2002 as it is governed by state-based legislation which has already been successfully legislated for this type of structure for nearly 20

years. We acknowledge that State Governments will play a critical role in providing supporting legislation, consistent with what they have done with the Venture Capital Limited Partnership (VCLP), Early-Stage Venture Capital Limited Partnership (ESVCLP) and Australian Fund of Funds (AFOF) regimes. Accordingly, all that is necessary is to enact supporting legislation to switch-off the current deeming of Limited Partnerships as being companies under Division 5A of the Income Tax Assessment Act 193 and enactment of qualification measures – which we would anticipate may be similar to MIT regime with appropriate modifications.

Recommendations

- Regularly review the foreign investment framework to ensure it continues to attract investment capital amidst changes to global uncertainty and disruption caused by future pandemics or issues that lead to border closures.
- Consider recommendations for improving the operation of the Foreign Investment Review Board approval regime to enhance decision turn-around times.
- Work with industry to reduce the uncertainties in the tax treatment of private capital investment into Australian businesses.
- Fast-track the implementation of a LP CIV regime as the major outstanding component of a globally competitive fund vehicle regime.
- Improve existing VCLP and ESVCLP vehicles through adopting and implementing the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes as a priority.
- ASIC conduct a post-implementation review of the RG97 regime to enable any market-facing issues to be identified and resolved.

7. Keep Australia's borders open

The Council believes that a return to pre-2020 border settings will be key to Australia's economic recovery, both in terms of financial and human capital flows, and is of vital importance to industry to have both skilled and unskilled migrants start to return to Australian shores.

Recommendations

- Maintain a flow of non-citizen skilled migrants, tourists and students to assist Australia's economic recovery now the pandemic settings have moved to living with the virus.
- Build further dedicated quarantine facilities similar to the one in Howard Springs in the NT and the facility being constructed in Mickleham, Victoria, close to all major international airports and health facilities to deal with any future variants of COVID19 or any other infectious diseases that may emerge in the future.
- Create a new Commonwealth agency to specifically deal with future human biohazards, similar to the US Centre for Diseases Control and Prevention, in order to provide nationwide uniformity in approach, and to provide national tracking and tracing capability for infections.

8. Secure supply chains

Local and global supply chains have come into sharper focus. Continued investment into national infrastructure is critical to reduce bottlenecks and ensure goods can flow through our ports, rail and road networks safely, quickly and efficiently. To this extent, digital transformation will also play an important role in fostering greater visibility over supply chain data.

Investment in Australian manufacturing and component sourcing capability for essential products will be key to reducing global supply chain disruptions.

Recommendations

- Continue investment into national infrastructure to reduce bottlenecks and ensure goods can flow through our ports, rail and road networks safely, quickly and efficiently.
- Invest in Australian manufacturing and component sourcing capability in essential products which may be susceptible to global supply chain disruption.
- Fast-track digital transformation to gain more visibility over supply chain data.
- Invest in Australian manufacturing and component sourcing capability in essential products which may be susceptible to global supply chain disruption.

9. Skills and Migration – address skills shortages

A world-class innovation ecosystem needs to be supported by a world-class education system. The nature of work itself is evolving, driven by technological transformation. A leading education system should encompass skills that aren't traditionally taught in schools and universities, such as entrepreneurship, and provide the infrastructure to effectively deliver student outcomes starting from primary through to the tertiary phase of education. Australia is a net importer of not only capital but talent. Skilled migration has been a key component of Australia's migration system, playing an important role in generating economic growth for a number of decades.

Businesses that are seeking to remain viable or to accelerate their growth can only do so by tapping into a deep pool of talent, both locally or globally. There is a need to address the current talent gap that exists for many high growth companies by investing in education and opening up pathways for skilled migrants. This is highlighted in the Council's latest Future Jobs Barometer,9 published in March 2022, which shows 5331 job vacancies in the VC-backed businesses in eight of Australia's most active venture capital funds, a strong 35 per cent growth in the six months to 31 December 2021.

Australia is competing with other jurisdictions for skilled migration and needs to have policies that make it attractive for people to move here and remain here.

9.1 Revamping the immigration opportunities for skills and talent to fill the gap

Skilled migration has been a key feature of Australia's migration system, playing an important role in generating economic growth for successive decades. Australia has had a long history of supportive policies to attract business entrepreneurs. However, the rising global mobility of workers and heightened competition for talent means that it is important for Australia to have policy settings that are effective in attracting a critical mass of "new economy" skilled workers. These entrepreneurs will help generate new and sustainable business opportunities within the Australian economy into the future and every effort must be taken to attract and retain that talent.

9.2 Leveraging capabilities of foreign students

Australia has a strong record of attracting foreign students to tertiary education. Many of these students arrive on visas that are valid for the duration of their studies, and then return to their home countries to develop their careers once their education here is completed. This pipeline of talent represents a potential source of the skills needed to address labour shortages in the short to medium-term.

Foreign students who graduate from Australian universities in disciplines where there are skills shortages provide a rich talent resource which could be tapped into to assist Australia build a pipeline of skills for a new, knowledge-based economy.

The global search for talent is compounded by ever-more-rapid changes brought about by technology and innovation. Australia has to stay competitive to attract and retain the best and brightest. The Council is supportive of the government's Global Talent programs. While it is still early days in the lifecycle of these policies, the Council believes that they represent a positive step for Australia's future capability around skills development. Further refinement of skilled migration occupation lists will play an important supporting role in identifying those specific niche skills that Australia should prioritise in order to build future growth.

9.3 Filling skills and talent gaps and building a pipeline of skills that will support Australia's future growth industries.

The Government's Global Business and Talent Acquisition Taskforce (GBTAT)and tertiary education reforms are positive steps towards acquiring and generating the skills required in the future. As the pipeline of talent is grown within Australia, there are currently skills and talent gaps within the private capital sector which need to be filled as a priority (see above).

9.4 Building the next generation of local talent

As outlined in the Australia 2030 Prosperity Through Innovation report released by Innovation and Science Australia, growth in jobs and occupations requiring STEM skills are outstripping overall employment growth across the economy. While skilled migration will help to address skills shortages in the near future, building a workforce with relevant STEM skills from within Australia will be critical for future employment and economic growth. In the longer-term, establishing a pipeline of future employees with STEM skills from the Australian school system would help to increase the job prospects for generations to come.

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[9] *Future Jobs Barometer*, Australian Investment Council, March 2022

To compete against the world's best, Australia needs to attract and retain the world's best talent. This is particularly true for our nation as a net importer of capital and highly skilled talent. Education reforms, particularly in STEM disciplines, will help build the next generation of local talent. This will complement the shorter-term immigration reforms.

Recommendations

- Introduce incentives for investment into non-capital city regions and areas most in need based on similar model to the United States' economic 'Opportunity Zones'.
- Boost the offshore marketing of the Global Talent programs, alongside the GBTAT, to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.
- Extend visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.
- Further embed STEM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of 'STEM schools'.
- Develop a national education program to fast-track STEM skills development in secondary schools.
- Map skills that can be translated from a tertiary education level to fast-track technology skills development in Australia.
- Look to expand the capability of the Digital Technologies Academy planned for Adelaide to include the secondary education sector.

10. The innovation economy

Focussing on technology as an enabler for building employment and growth across the economy

Innovation investment in Australia is driven largely by the willingness of investors, such as private capital firms (and their investors), to take risks and invest in businesses that are creating new and innovative products and services, and in doing so, establishing markets that often do not even currently exist. These investments are often at the earliest stages of a new venture's life, or at key points in the life cycle of family business succession, both of which are considered to carry high risk for different reasons. Along with the provision of capital, this funding is accompanied by highly valuable strategic and operational advice and guidance to the founders and management teams of private, early-stage and fast-growth businesses. This model of working in partnership is often the 'x-factor' that can help these innovative businesses to realise their ambitions in domestic and global markets. The expansion and growth of such businesses leads directly to more revenue and sales, greater levels of investment into innovative market-leading research and development, and ultimately, is the key driver behind the creation of new high-value jobs within the economy and higher tax revenue streams.

10.1 University Research Commercialisation

Closer collaboration between industry and universities to accelerate research commercialisation.

The Council is supportive of innovation districts that connect universities with industries to create a culture of collaboration, innovation and public engagement for the development of new businesses and industries. Innovation districts are central for knowledge-based and novel economic activities with distinct benefits stemming from the co-location of researchers and industry.

Establishing innovation precincts with a specific industry focus – such as the Melbourne Biomedical Precinct – would build significant opportunities for research commercialisation. The Melbourne precinct is amongst the top three biomedical research clusters in the world. It includes the University of Melbourne, Monash University, CSIRO, CSL Limited, Royal Melbourne Hospital, the Bio21 Institute, the Walter and Eliza Hall Institute and Biomedical Research Victoria. CSL's research and development headquarters is also located within the precinct. Similar initiatives have recently been announced for Sydney with its Biomedical Accelerator.

The Council recommends government fast-tracks the commitment outlined in the Statement of Principles for Australian Innovation Precincts Report to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

10.2 Building a globally competitive Patent Box Regime

The Council is supportive of measures to implement a 'gold standard' Patent Box to support the innovation economy.

Australia has the capacity to be a world leader in the development of new medical technologies. To achieve this, the sector will need to be supported by a Patent Box regime that is competitive on a global scale and has the potential to attract investment, to accelerate our commercialisation pipeline, and to retain the IP within Australia.

In the Council's view, the Patent Box design principles should extend beyond the scope of the medical and biotechnology, clean energy sectors and agricultural sectors to include industries where Australia has a comparative advantage in areas such as food technology, space and quantum computing and critical minerals processing.

While we recognise there would be a cost to the budget and that this policy design principle would require government support, the medium and long-term benefits to the national economy through employment and economic growth would outweigh the initial budgetary outlay.

Recommendations

- Provide increased support for Corporate Venture Capital and Innovation labs through the introduction of new programs to attract greater public-private investment into high growth Australian companies and increased incentives for Australian companies to take risks with new and emerging technologies.
- Utilise the R&D Tax Incentive Roundtable to ensure the guidance material is reviewed with the view of developing single and well-understood repository of information for the R&D Tax Incentive.
- Introduce matching grants for R&D to boost innovation and growth.
- Implement a 'gold standard' patent box to support the innovation economy;
- Continue to work with industry and government to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the Statement of Principles for Australian Innovation Precincts, Report recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.
- Establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

11. Grow digital capability

Building a digital future will require further investment in technological infrastructure to ensure businesses and individuals have access to facilities that are world class. Upgrading the NBN to a gold and future-proof standard FTTP and building 5G and future 6G capabilities will be integral to this process.

The transition to a digital economy can be further fast-tracked through providing businesses with incentives to improve their digital capabilities and to increase digital skills through education and training programs. Research and development activity should be tailored to focus on investment into industries aligned with the future digital economy.

Recommendations

- Consider the introduction of a simpler direct additional tax credit to enable all Australian companies to retool by investing in software and other digital capabilities to transform their businesses and digitise their core.
- Invest in further NBN upgrades of premises from FTTC and HFC to FTTP as more people work from home and where flexible working arrangements will become the norm.

12. Remove taxation inefficiencies

Streamline Australia's taxation system to remove uncertainties and to improve the nation's competitiveness in attracting investment capital from domestic and offshore sources.

Some of the key priority reforms set out in previous extensive tax reviews, as well as other growth-orientated analyses of Australia's taxation system, revolve around reducing the headline corporate income tax rate for all businesses, a step that would deliver incomes growth for all Australians and also lift Australia's competitive standing in the global market for capital and talent.

A reduction in the corporate income tax rate will form an important part of a broader strategy of shifting the nation's 'tax mix' by reducing reliance on direct taxes – such as personal and corporate income taxes – and re-balancing towards greater reliance on 'user pays' pricing mechanisms and indirect taxes. In the technology-enabled global marketplace in which Australian businesses operate, such a shift is vitally important to building a stronger and more sustainable budgetary position for governments at all levels into the future. Measure that could be considered are those potentially hindering investment in Australia and support for policies which encourage investments in high-growth businesses in order to help the post-pandemic economy recover.

Alignment of state-based tax regimes needs to be considered in order to avoid the red-tape of businesses dealing with multiple differing and competing regimes.

Recommendations

- Consider further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract talent to Australia.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

13. Work towards net-zero

As outlined in the 2021 Intergenerational Report, the likely effects of the transition to a lower carbon emissions economy will mean that some sectors will need to adjust to falling demand for some exports while new opportunities will be created in other sectors. In many respects, these factors will be outside of Australia's sovereign ability to control, and ultimately these costs will be passed on to Australian consumers and other businesses. There are a number of areas where Australia has a comparative advantage such as in solar and wind energy and in regenerative farming transformation and can be a world-leader in the export of clean-tech solutions that will underwrite the global shift towards more sustainable economies.

Businesses will play a pivotal role in driving innovation and in developing new technologies that will reduce carbon emissions and will also lead the way through policies that commit to and ensure actions that reduce carbon emissions and in leading new business practices and investment decisions. Businesses will increasingly find it important that credible green credentials are provided to consumers, their business partners, financiers and investors.

Recommendations

- Reduce red tape for businesses investing in new technologies to support the transition to clean energy.
- Support clean energy initiatives for businesses and households.

14. Themes from the previous reviews

The Council believes the National Innovation and Science Agenda (NISA) introduced by the Turnbull government in 2016 has had a positive effect on the innovation economy.

Recommendations contained in the Productivity Commission's Shifting the Dial review in 2017, particularly in respect of the opportunity for National Cabinet to adopt a formal joint reform agenda. Reinstatement of the core principles set out in the 2013 report, and the adoption of recommendations from the Productivity Commission's 2017 analysis, should form part of a comprehensive and clear commitment to eliminate red tape costs for businesses over the short and medium-term.

Governments and regulators should resist the temptation to develop new laws and regulations and implement additional red tape only where there is a clear and unavoidable need, for example where industry is not able to independently react to market ineffectiveness or consumer harm. Where new laws and regulations are required, they should be implemented through enabling technology. Government regulators should also expand the use of regulatory sandboxes to help dictate new ideas and products, building on concepts of the enhanced regulatory sandbox announced by the Government in June.