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Working for Australia

2019-20 Pre-Budget Submission

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Australian
Chamber of Commerce
and Industry

WORKING FOR BUSINESS.
WORKING FOR AUSTRALIA

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Executive Summary

Despite the Australian economy showing signs of strengthening across a range of measures, such as GDP and employment growth, a number of persistent macroeconomic challenges remain. The Australian Chamber of Commerce and Industry is concerned about Australia's ability to sustain long-term economic growth, as well as its ability to continue to raise national income and living standards. Current high level of household and net foreign debt, weak multifactor productivity growth and Australia's lagging international competitiveness pose both immediate, and medium to long term risks to the health, sustainability and stability of the Australian economy. This is occurring against a backdrop of a slowing global economy with significant structural imbalances, especially global debt.

The Australian Chamber commends the Government on its ambition to deliver sustainable budget surpluses from 2019-20 and beyond and welcomes recent progress to achieving this goal with the Mid-Year Economic and Fiscal Outlook showing an improving fiscal position. However, concerns remain that this improvement has largely been driven by higher than expected revenues resulting from short-term economic factors, and cautions that any delivered surplus must be supported by further budget repair that addresses structural challenges to the Commonwealth's finances.

Ultimately, the Government's tax and spending decisions, as well as any policy announcements made in the lead up to the upcoming federal election should aim to:

- deliver optimal policy outcomes
- improve Australia's ability to manage external economic shocks
- increase the productive capacity of the Australian economy
- improve the budgetary and public debt position, and
- improve Australia's international competitiveness.

With these objectives in mind, the Australian Chamber has sets out the following policy recommendations for consideration by the Federal Government in the upcoming federal budget.

Policy Recommendations

Government Spending

- Budget repair that doesn't rely on temporary fluctuations in Government revenue
- Cap government spending below 24.7% of GDP
- Retain an efficiency dividend of 2%
- Establish efficiency boards to find savings in the large, complex spending areas of defence, health, education and social security and to ensure spending is fit for purpose
- A plan to reduce net public debt over the medium term

Tax and regulation reform

- Undertake a wholesale review of the tax and transfer system, including a review of the tax contribution of offshore service and product suppliers
- Implement a single company tax rate of 25% for all businesses (small, medium and large) by 2024-25
- Make permanent the instant asset write-off on new investment up to $20,000

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- Introduce a 20% instant asset write-down for new investment in eligible depreciable assets valued above $20,000.
- Lead on regulatory reform
- Review prudential regulations and capital requirements that increase the cost of capital for small businesses.
- Reduce the current registration and ASIC's annual renewal fees by 50% for companies with a turnover of less than $5 million per annum.
- Review the proposed changes to R&D tax incentives

Skills and Education

- Complete the consolidation of resources focused on labour market and skills needs analysis and allocate sufficient resources to deliver an updated workforce development strategy in 2019-20, and every second year thereafter
- Rationalise and improve federal government career and labour market websites, upgrade the school facing career education strategy to a career development strategy for lifelong career advice and information, and make it easier for industry knowledge to become available to career planners, students and job seekers.
- Maximise the return on investment in apprenticeships by establishing a program to assist each industry to identify the most appropriate pre-apprenticeship and school based pathways in order to deliver the best outcomes for students and job seekers.
- Implement an additional kick-start apprenticeship incentive from 1 May 2019 to 31 December 2019.
- Establish a National Apprenticeship Board.
- Allocate $10 million to the Real Skills for Real Careers marketing strategy, turning it into a well-funded campaign
- Increase the caps on VET Student Loans where evidence demonstrates inadequacy in covering the cost of delivering quality courses that are meeting industry needs.
- Higher education reform should not be abandoned, but be restarted based on: evidence of graduate outcomes; as part of a review of tertiary education in general; and, the extent to which the education system is meeting the needs of the labour market.

Migration

- Set the cap for permanent migration at 190,000 and sufficiently resource the processing to achieve outcomes close to the cap. Caps for future years should be set according to the evidence of maximum benefit, including an assessment of economic, fiscal and demographic outcomes.
- Allocate sufficient resources to address extensive delays in processing visa applications, including the labour agreement stream.
- Improve access to temporary and permanent skilled migration for regional employers
- Promote better community understanding of the value of skilled migration
- Improve education and access to information relating to rights and obligations under Australian labour laws
- Halve the Skilling Australians Fund (SAF) Migration levies to improve access to skilled migration

- Disconnect the SAF levy from the COAG skills partnership agreement, and guarantee funding for apprenticeships at the announced levels
- Improve the refund policy for the SAF levy so that a refund is available in all cases where the application has not been successful
- Ensure visa fees and arrangements are internationally competitive.
- Improve education and access to information relating to rights and obligations under Australian labour laws.
- Establish a complementary program for employer organisations and trade unions to provide employment information in LOTE to groups of businesses / workers from migrant communities to redress the information gap for such communities.
- Fund business organisations to work with migrant run businesses, and to provide business to business information, behind closed doors on employment law obligations and liabilities. There also be reciprocal / matching funding available to unions to improve their interactions with migrant workers.
- Ensure labour market information is up-to-date and accurate by reviewing the Australian and New Zealand Standard Classification of Occupations (ANZSCO) immediately and allocate funds for the review.

Youth Employment
- Reform the PaTH model, linking PaTH training to a job or experience outcome and reward training providers who organise the work or experience
- Fund and trial a new PaTH model that offers long-term unemployed youth structured training concurrent with work experience using a traineeship style model. The experience can then be converted to a structured traineeship.

Workplace Regulation
- Continue funding the Australian Building and Construction Commission
- Provide additional resources to the Fair Work Commission
- Enhance the compliance capability of the Fair Work Ombudsman

Workplace Health and Safety
- Continue to fund Safe Work Australia to provide effective policy and services.
- Fund the Australian Chamber to provide information and representation to Australian employers, within and beyond its network.

Trade and International Affairs
- Release timely data on both importers and exporters to improve the understanding of the characteristics of these companies, and to aid policy-making and support services
- Work with private sector representative bodies such as the Australian Chamber to deliver improved services to exporters in a collaborative approach to improve the reach of initiatives and reduce the risk that Government actions "crowd out" private sector led initiatives.
- Continue to collaborate with industry representatives, such as the Australian Chamber and its members, to develop and deliver simple resources for SMEs to capitalise on Free Trade

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Agreements. These resources should be easily accessible to the public and reduce Non-Tariff Barriers to international trade.

- Accelerate work on the "Single Window" by incorporating private sector initiatives in trade modernisation.
- Undertake economic assessment of our existing and proposed trade agreements to ensure they are delivering (or likely to deliver) economic benefits to Australia.
- Undertake a "stocktake" to consider the value of maintaining bilateral preferential trade agreements where the same nations are party to wider regional agreements.
- Continue to identify and seek to address non-tariff barriers that adversely affect trade, both domestic and international.
- Significantly modify the Trusted Trader programme to embrace the concept of "innocent until proven guilty" through a demerits style application for non-compliance.
- Restore the Export Market Development Grants scheme funding to $200 million, and streamline and improve scheme administration.
- Restore Tradestart to the previous funding and delivery models
- Cap 2019-20 aid funding commitments, inclusive of climate change funding, at $5 billion. Beyond that, defer the trajectory in increased Aid until such time as the budget provides a secure and ongoing surplus.
- Ensure the financial resources underpinning the Anti-Dumping Commission reflect the reasonable and justifiable workload of the commission, and discourage investigation of frivolous matters or cases that are unlikely to succeed.

1 Introduction

The Australian Chamber advocates for a competitive environment for business within an Australian economy that is fundamentally strong, growing and resilient, as well as stable and sustainable. To support economic growth, the Federal Budget should focus on improving productivity and better target government spending and policies towards initiatives that will boost economic activity such as well-considered infrastructure and workplace regulation reform.

We welcome the commitment by the Government to deliver a surplus budget in FY 2019-20 and the improvement in the overall fiscal situation as outlined in MYEFO 2018-19.

However, concerns remain that insufficient policy buffers (both in terms of fiscal and monetary policy) have been put in place to deal with the systemic economic challenges posed by high levels of domestic and global debt and an uncertain global trading environment.

Although there has been some improvement, Commonwealth Government spending levels in the post-GFC era have remained elevated and the task of budget repair still has some distance to travel.

Despite the commitment by Government to deliver budget surpluses in 2019-20 and beyond, the Chamber cautions that any delivered surplus, absent of further budget repair that addresses structural challenges to the Commonwealth's finances, risks being over-reliant on favourable resource prices, debt accumulation, wages growth and bracket creep.

The Australian Chamber supports the delivery of a strong budget surplus, within the constraints of:

- conservative economic assumptions;
- a stable tax burden; and
- prudent and strategic spending decisions which address medium term structural challenges.

Beyond recognising the short to medium term challenges that domestic and global debt levels may pose, the Australian Chamber supports efforts to lift Australia's multifactor productivity, improve business competitiveness and confidence, and deliver a sustained long-term increase in living standards.

A critical element of the Chamber's 'Top 10 in 10 strategy' (10 steps outlined at the 2016 election focusing on making Australia more competitive) is for policy makers to look beyond the electoral cycle.

With a federal election due in 2019, it is important that significant tax and spending policy decisions reflected in the Budget support efforts to:

- deliver optimal policy outcomes
- achieve budget repair over the medium term;
- improve Australia's ability to manage external economic shocks;
- increases the productive capacity of the Australian economy; and
- improve Australia's international competitiveness.

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Any new Government spending announced in this year's Budget should be strategically geared towards:

- investing in physical and human capital, including infrastructure, and the skilling and re-skilling of Australians for the emerging and evolving job requirements of the future; and

- Increasing Australian businesses competitiveness and facilitating increased employment, trade and investment.

The Chamber calls on Government to use the 2019-20 Budget to address Australia's most pressing macroeconomic challenges with a deliberate, pro-active and sober approach.

2 Addressing Australia's Macroeconomic Challenges

The Australian economy is demonstrating strength across a range of measures including GDP and employment growth. However, persistent macroeconomic challenges remain including:

- high household and net foreign debt levels;
- sluggish multifactor productivity growth; and
- lagging international competitiveness.

These leave Australia exposed in the event of an economic shock, posing both immediate and medium to long term risks to the health, sustainability and stability of the Australian economy and challenges to business and policy makers.

They exist against a backdrop of a global economy that is slowing, while experiencing significant structural imbalances, especially in terms of global debt.

These global imbalances, coupled with an increasingly volatile macroeconomic environment and rising geo-political tensions, have raised the level of global economic risk.

Below we detail the three specific macroeconomic challenges that we believe policy makers need to prioritise.

2.1 Challenge 1: Record Australian Household and Foreign Debt

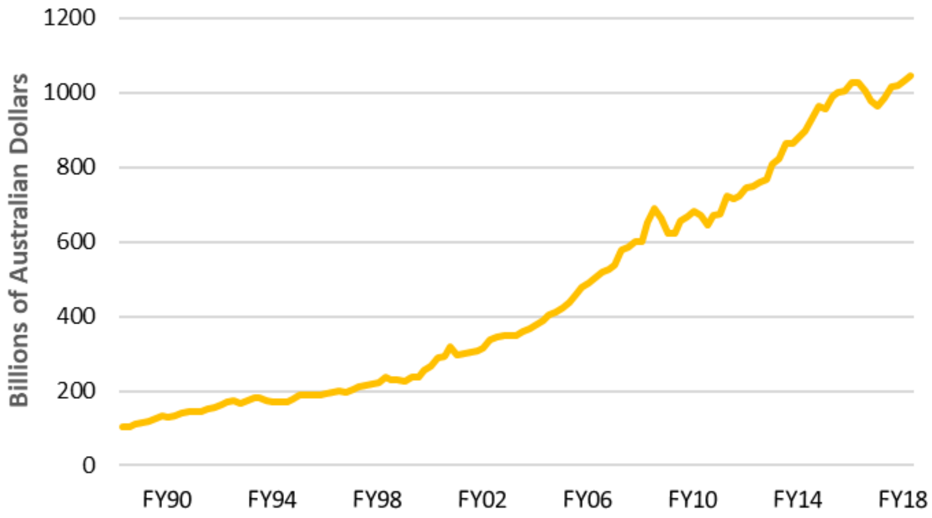
In the years subsequent to the 2008 Global Financial Crisis, domestic and global economic growth have been accompanied by significant increases in domestic and global debt, accumulated by both public and private sectors. This debt eventually needs to be repaid, and any extended weakening in the Australian economy, or changes in interest rates, exchange rates or the value of assets can present challenges.

Analysis by the International Institute for Finance has stated that global debt stands at $US 247 trillion[1] as of June 2018 which is over $US 85 trillion higher than as of September 2007. Recent evidence suggests the quantum of global debt continues to grow across developed (such as the United States) and emerging (such as China) economies.

In the Australian context, high levels of household debt (which is at a historic high both nominally at $AUD 2.4 trillion and relative to disposable income at 190.5% as of June 2018 respectively) and net foreign debt (which is at a historic high at $AUD 1.036 trillion and currently 224.8% relative to GDP) leave the Australian economy and the business sector vulnerable to external economic shocks.

[1] https://www.reuters.com/article/us-global-markets-debt-iif/emerging-economies-see-debt-rise-1-trillion-in-second-quarter-face-record-redemptions-iif-idUSKCN1NJ2IT

Figure 1: Australia's Net Foreign Debt



2.2 Challenge 2: Australia's Sluggish and Declining Multifactor Productivity

Over nearly a quarter of a century (since July 1994), the multifactor productivity performance of the Australian economy (as measured by the Australian Bureau of Statistics) has gone through three distinct phases. As illustrated in Figure 2 and Table 1, these multifactor productivity growth phases have been characterised by:

- Rapid productivity growth (1994 – 2004);
- Falling productivity growth (2004 – 2011); and
- Sluggish productivity growth (2011 – 2018).

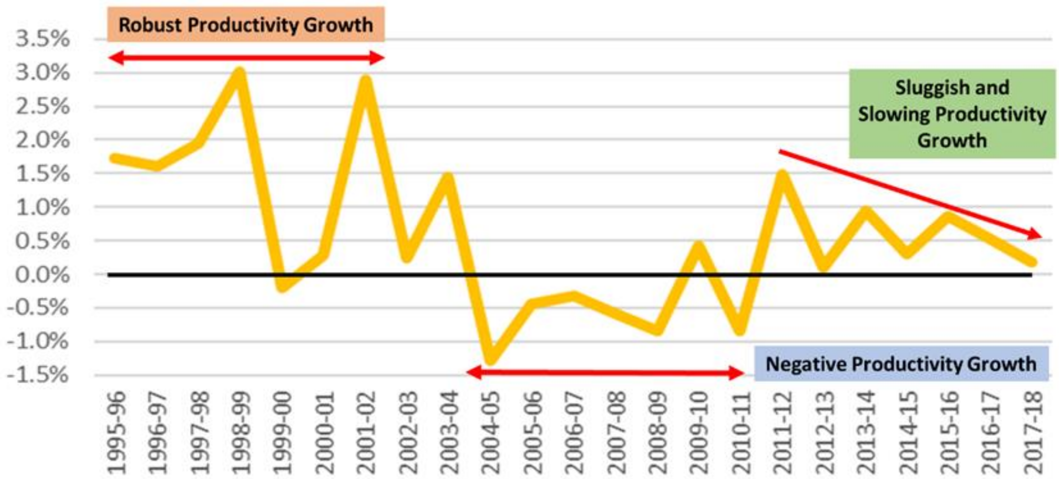
Figure 2: Australia's Multifactor Productivity Performance (Index Numbers)

Table 1: Australia's Multifactor Productivity Performance as measured by Market Sector Industries

Phase No	Phase Name	% growth in Multifactor Productivity
1	Rapid productivity growth	12.81%
2	Falling productivity growth	-3.86%
3	Sluggish productivity growth	4.47%

These three phases can also be presented on an annualised percentage basis, as shown in Figure 3. Of concern to the Australian Chamber, is that while multifactor productivity growth has been positive since 2011, the rate of that growth is both sluggish relative to the pre-2004 era and is also slowing.

Figure 3: Australia's Multifactor Productivity Performance (% Change) as measured by Market Sector Industries



2.3 Challenge 3: Impediments to Australia's International Competitiveness

Australia's ability to generate long-term sustainable economic growth, and therefore lift national income and living standards, is directly tied to our ability to produce goods and services within a global market place that customers need, or want at prices they are willing to pay. If we can't compete we will fall behind other countries and we will find it harder to meet Australians' expectations of a higher standard of living.

The fundamental economic challenge requires the Australian economy and Australia's businesses to be internationally competitive where Australia is able to:

- attract the capital necessary to meet our investment requirements;
- attract the best human talent from across the world that can help build leading corporate enterprises;

- produce innovative goods and services at prices that are competitive in the global market place.

In the past decade, factors such as short-term political consideration and sub-optimal public policy changes have resulted in Australia's international competitiveness falling over the long term relative to other national economies.

Currently, the two major reputable global competeveness indexes show Australia is ranked:

- 14th in the WEF Global Competitiveness Report 2017-18, up from 21st in 2016-17
- 19th in the 2018 IMD World Competitiveness Ranking, up from 21st in 2017

Despite the recent relative improvement of Australia's performance in both indexes, serious challenges to Australia's international competitiveness remain, which the Government's fiscal policy can play a meaningful role in resolving.

WEF 2018 Global Competitiveness Index

According to the 2018 World Economic Forum (WEF) Global Competitiveness Index, which surveys 140 nations, the main factors hampering Australia's international competitiveness are outlined (Table 2).

Table 2: Australia's Competitiveness Problems as measured by the 2018

Category	Components
Institutions	Burden of government regulation (ranked 77th) Conflict of Interest Regulation (ranked 54th) Shareholder governance (ranked 56th)
Infrastructure	Railroad Density (ranked 93rd) Liner Shipping Connectivity Index (ranked 60th)
Skills	Pupil-to-teacher ratio in primary education (ranked 46th)
Product Market	Competition in services (ranked 54th)
Labour Market	Hiring and firing practices (ranked 110th) Flexibility of wage determination (ranked 105th) Ease of hiring foreign labour (ranked 138th) Internal Labour mobility (ranked 81st) Labour tax rate % (ranked 96th)
Financial System	Credit Gap (ranked 110th) Banks regulatory capital ratio (ranked 112th)
Business Dynamism	Insolvency regulatory framework (ranked 46th)

IMD World Competitiveness Ranking

According to the IMD World Competitiveness Rankings, the major inhibitors which are hampering Australia's international competitiveness include:

- Corporate tax rate on profit (ranked 50)
- Personal income tax rate (ranked 45)
- Real corporate taxes (ranked 42)
- Subsidies (ranked 40)
- Real personal taxes (ranked 39)
- Government subsidies (ranked 39)
- Labour regulations (ranked 36)
- Foreign Investor regulations (ranked 36)
- Immigration laws (ranked 35)
- Productivity (ranked 30)

3 Structural Fiscal Position

The Commonwealth Government is expected to announce a budget surplus for fiscal year 2019-20, the first surplus since the Global Financial Crisis in 2008.

The Australian Chamber welcomes this and strongly urges that any delivered budget surplus be underpinned through structural budget repair, to address medium term structural challenges to the Commonwealth's finances.

The Chamber supports the ambition outlined in the 2018/19 Budget that "The budget repair strategy is designed to deliver sustainable budget surpluses building to at least 1 per cent of GDP as soon as possible, consistent with the medium-term fiscal strategy." However, concerns remain that the recent improvement in the Commonwealth's fiscal position is largely due to higher levels of revenue driven by short-term economic factors.

For example, the substantially improved fiscal outcome for FY 2017-18 was achieved by stronger than expected real GDP growth driven by consumption, non-mining business investment and public final demand largely via debt accumulation (this includes investment in non-residential buildings and infrastructure) as well as non-mining business investment of a short-term nature such as the purchase of business equipment.

Looking ahead, household consumption may be impacted by the continuing decline in house values, which may impact confidence and the propensity to spend across the wider economy.

Moreover, analysis from the Parliamentary Budget Office's 2018-19 National Fiscal Outlook shows an expected improvement in the Commonwealth's underlying budget position during FY 2018-19 and beyond. This will arise as a result of a boost in personal income tax revenue, driven by assumed higher wages growth and bracket creep.

3.1 Government Net Debt

The Australian Chamber acknowledges the improvement in net debt as outlined in the 2018-19 Mid-Year Economic and Fiscal Outlook. Driven by stronger than expected collections from individual and company tax, higher corporate profits, and employment growth, the net debt position is expected to improve at a faster rate than previously expected. This will deliver a decline in the net debt forecast in each year of the forward estimates, down from $351.9 billion (18.2% of GDP) in 2018-19 to $312.6 billion (14.3% of GDP) in 2021-22.

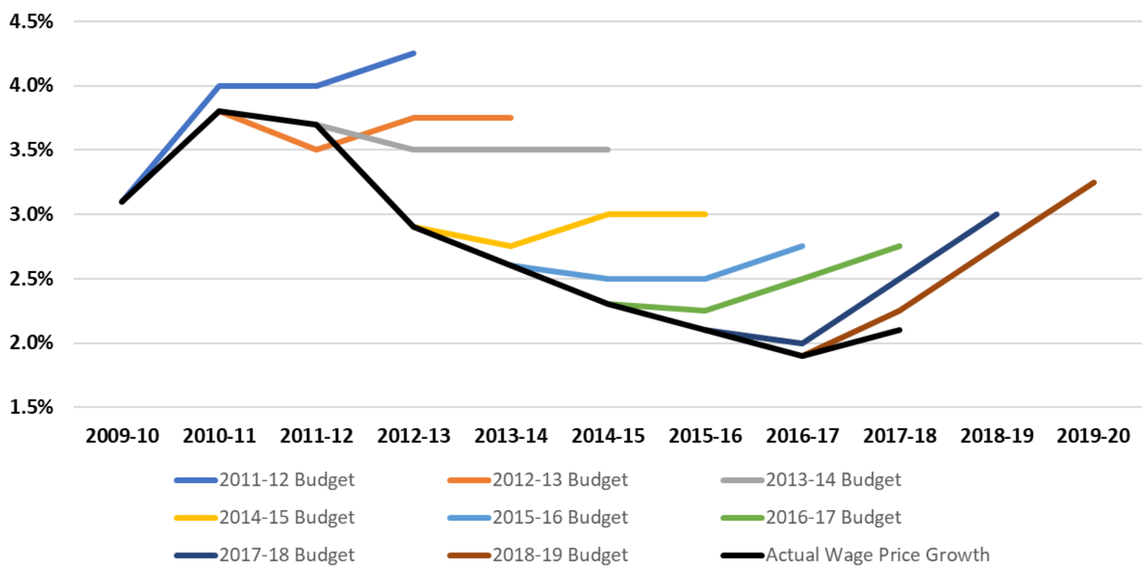
There is still some distance to travel to reduce the debt to more comfortable levels. The interest bill on Government debt is $17.24 billion, monies that could be better directed to productivity-enhancing programs and infrastructure.

3.2 Wage Growth Assumptions

In the post GFC era, up until 2018/19, successive Federal Governments have struggled to deliver financial outcomes consistent with budget expectations. A significant reason for this has been consistently overly optimistic economic assumptions that have not eventuated.

One key economic parameter that illustrates this is the growth in Australian wages. This is demonstrated in Figure 4, which shows the wage growth forecasts have consistently been higher than actual outcomes.

Figure 4: Actual Wage Growth vs Treasury Forecasts



3.3 The Potential Fiscal Consequences of an Economic Shock

While Australia has not experienced a recession for over 25 years, the average deterioration in the budget deficit during past recessions was about 3%. Following the 2008 Global Financial Crisis, the budget position deteriorated by 6.8%.

While the prospect of a recession in the near-term is unlikely, a number of developments will challenge government finances in the medium to longer term.

In the coming years, the government's budget position is likely to remain under pressure by a number of structural economic and societal developments and challenges including:

- The aging population and potential decline in workforce participation rates – i.e. proportionally fewer workers to pay taxes. This will be exacerbated if the Federal Government further reduces permanent skilled migration.
- Increased life expectancy – advances in medical technology and the associated increase in health care costs.
- Technological disruption – creating new challenges to productivity, innovation, the future of work and competitiveness of the Australian Economy. These challenges will require resources to address.
- Unfunded superannuation liabilities.

4 Policy Recommendations

To address Australia's macroeconomic and fiscal policy challenges, the Australian Chamber puts forward a range of policy recommendations to the Federal Government for adoption in the upcoming federal budget. These areas of policy include:

- Government spending
- tax and regulatory reform
- skills and education
- migration
- youth employment
- workplace relations
- trade and international affairs

The Australian Chamber's policy recommendations are listed in the sections below.

4.1 Government Spending

Recommendation Summary

- Budget repair that doesn't rely on cyclical economic fluctuations in government revenue
- Cap government spending below 24.7% of GDP
- Retain an efficiency dividend of 2%
- Establish efficiency boards to find savings in the large, complex spending areas of defence, health, education and social security and ensure spending is fit for purpose
- A plan is needed to reduce net public debt over the medium to longer term

MYEFO 2018/19 indicated that government spending for this financial year is tracking at 24.9% of GDP, with projections showing that this percentage will fall further in future years. This downward trend is welcome, and the Government should maintain its vigilance in this area. The 30-year average revealed in MYEFO was 24.7% and this average should be seen as a cap on government spend as a percentage of GDP.

4.1.1 Restore the Efficiency Dividend

In the 2016-17 Budget, the government decided to "maintain the efficiency dividend at 2.5 per cent in 2017-18, then reduce it to 2 per cent in 2018-19 and further reduce it to 1.5 per cent in 2019-20."

An increase in Government recurrent spending cannot be supported at a time when Government debt has reached a historically high level and is continuing to increase. It is important that the Government continue to constrain its expenditure until it has returned to a budget surplus and can show it has regained control of Government debt. While a small surplus in the underlying cash balance is forecast for 2019-20, it is yet to be realised and proven that it can be sustained.

We encourage the government to maintain the efficiency dividend at the 2018-19 level of 2% until the budget has achieved a sustainable structural surplus and a debt reduction strategy has been successfully employed.

Policy Recommendation:

- Retain the efficiency dividend of 2%

4.1.2 Expenditure Efficiency Boards

In order to identify savings priorities outside of departmental running costs, we propose separating **complex** policy spending or program areas (health, social security and welfare, education, defence, 'other' purposes) from the **non-complex** expenditure areas (recreation and culture, general public services, public order and safety) noting there are some complex expenditures within these areas (e.g. superannuation).

As outlined in our 2017-18 pre-budget submission, for **complex** policy expenditure areas, the Chamber recommends establishing efficiency boards/panels, tasked with finding efficiency savings in each area. The boards/panels should comprise a panel of experts from industry and independent former bureaucrats. These boards/panels would audit the effectiveness of current programmes in the policy expenditure area in order to determine whether they remain fit for purpose and make recommendations on where saving could be achieved. For example, these recommendation may include proposals to simplify and merge payments in social security and welfare, or cut administrative waste.

In addition, the Chamber proposes that spending on social security and welfare, health, education and defence be examined closely to determine how spending can be placed on a much more sustainable path in those areas. In each case, legitimate and reasonable questions should be raised over whether the magnitude of spending in every case is fit for purpose.

Non-complex expenditure areas should be subject to a 2% nominal budget reduction until the budget achieves a structural surplus. Expenses could then only rise in line with revenues (subject to a tax receipt cap) once a debt reduction strategy is successfully employed.

Policy Recommendation:

- Establish efficiency boards to find savings in the large, complex spending areas of defence, health, education and social security, and to ensure spending is fit for purpose.

4.1.3 Reduce Net Commonwealth Debt

Stronger than expected collections from individual and company tax, higher corporate profits and employment growth over the past year, have driven improvements in the Government's debt situation. However, it is not clear this good fortune will continue over the next year or beyond. Some market analysts are suggesting that real GDP growth will slow as a result of weaker investment and private consumption growth in 2018-19, while slowing Chinese growth will weigh on demand for Australia's mining exports which experienced a resurgence in 2017-18.

The Chamber stresses that budget repair should not be reliant on temporary fluctuations in government revenue which are largely outside its control.

The Government needs to develop and put in place a clear plan to reduce net public debt over the medium to long term. This should include a review of major spending programs which sets out strategies for longer-term spending reductions and prioritises future spending in areas that contribute most to growth and productivity.

Policy Recommendation:

- Budget repair that doesn't rely on temporary fluctuations in government revenue
- A plan to reduce net public debt over the medium to longer term
- Cap government spending below 24.7% of GDP

4.2 Tax & Regulatory Reform

Recommendation Summary

- Undertake a wholesale review of the Australian tax and transfer system, including a review of tax contribution of offshore service and product suppliers.
- Implement a single company tax rate of 25% for all businesses (small, medium and large) by 2024-25.
- Make permanent the instant asset write-off on new investment up to $20,000
- Introduce a 20% instant asset write-down for new investment in eligible depreciable assets valued above $20,000.
- Lead on regulatory reform
- Review prudential regulations and capital requirements that increase the cost of capital for small businesses.
- Reduce the current registration cost and ASIC's annual renewal fees by 50% for companies with a turnover of less than $5 million per annum.
- Review proposed changes to R&D tax incentives

The Government has made progress in reducing both personal and company tax rates in the last few years but there is more work to be done with the company tax rate specifically, as well as the need to progress broader tax reform.

4.2.1 Reform of the tax and transfer system

Australia's tax and transfer system is needlessly complex and unnecessarily expensive to administer. It is becoming unaffordable and no longer fit for purpose. It is among the least

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competitive in the world, ranking well below most other advanced economies including New Zealand, the United States and the United Kingdom.

Major reform of Australia's most inefficient taxes is necessary and has the potential to boost Australia's national income by tens of billions a year.

However, successive governments have seen reform of the tax and transfer system as too hard, placing many necessary reforms off limits.

Reform of the tax and transfer system is crucial to ensuring the Australian economy is in a strong position to deal with the challenges and developments in an increasingly volatile, uncertain and complex environment.

To ensure Australian businesses remain competitive in increasingly global markets, a wholesale review of the tax and transfer system is needed. This should include examination of offshore service and product suppliers to ensure they are complying with their tax obligations.

Reducing the corporate tax rate to the average of other advanced economies over ten years will deliver higher wages for ordinary workers through an upfront investment boost. Greater reliance should be placed on consumption taxes like the GST, which are more efficient because they do not distort decisions about whether to spend or save. Our tax system should aim to be broad based, with a focus on maximising growth, efficiency and productivity. It should not disadvantage the genuinely vulnerable nor unfairly penalise the prosperous.

A review of the tax and transfer system will also serve the interests of individual tax payers and welfare recipients. A more efficient and effective tax system will create opportunities to look at the income and living standards of all Australians and whether the system can be made more progressive.

Policy Recommendation:

- Undertake a wholesale review of the Australian tax and transfer system, including a review of tax contribution of offshore service and product suppliers.

4.2.2 Company Tax Rate

The Australian Chamber strongly supports the Government's efforts to lower the company tax rate to 25% and welcomes the legislated cuts to date. In particular, the Government's action to bring forward the timetable for the tax cuts for firms with turnover up to $50 million will make a material difference to the competitiveness of medium, small and family businesses and their ability to invest, to grow and to employ more people.

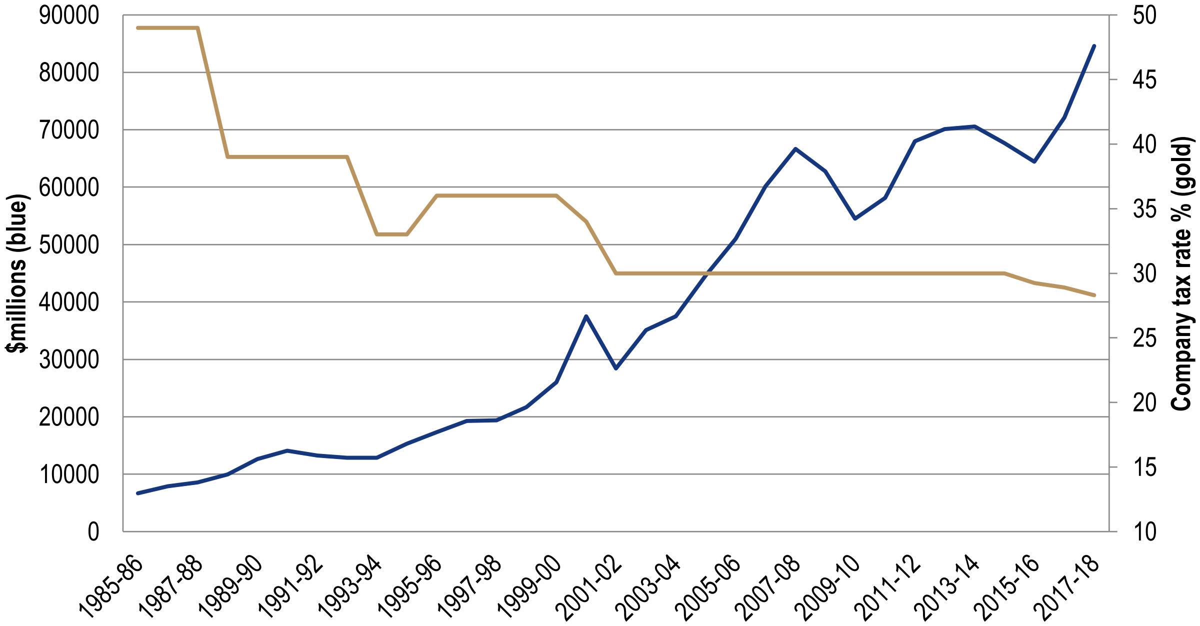
We encourage the government to continue to seek to extend the tax cuts through legislation to businesses of all sizes to deliver maximum benefit to the economy and to also eliminate the disincentive now created to not grow above $50 million turnover. Extending the tax cuts will encourage larger businesses to undertake more investment – to grow and, employ more people.

Small to medium businesses make an important contribution to the Australian economy, accounting for over half of private sector economic activity in Australia and over two-thirds of private sector employment. Many of these small businesses rely on sales and service contracts with larger businesses. Therefore, greater investment by larger businesses, following a lowering of the company tax rate, will have flow-on benefits for small businesses. Growth in larger businesses stimulated by a reduction in the company tax rate will increase employment opportunities for both large and small businesses.

Much of the opposition to extending the company tax cut to businesses of all size was in response to concerns about the revenue impact based on the projections made by Treasury and others when the enterprise tax plan was first announced in 2015. Such projections are inherently problematic as history of revenue from company tax has shown.

Figure 5 demonstrates that on the last three occasions when the company tax rate was reduced, there was a brief reduction in revenue collected, to be followed by a strong recovery in revenue.

Figure 5: Revenue from company tax and the tax rate 1986-2018



Source: ABS 5506, Treasury for 2017/18. 2016 to 2018 are estimated average tax rates as two rates are in operation depending on business size. Company tax collection in the past few years has also been impacted by the extension of the instant asset write off for small business.

To illustrate the doubt around projections of the cost of company tax cuts, in the 2014/15 Budget, being the year before the 10-year Enterprise Tax package was announced, the 2017/18 company tax revenue projection in the Budget papers was $84.7 billion. At the time the package was announced in 2015, which is when the 10 year projections of the “cost” of company tax cuts were published, the projection for 2017/18 was revised down to $80.2 billion. However, the final budget outcome, released in September 2018, showed the actual revenue for 2017/18 (and three years into the rate reductions) was $84.6 billion – close to the original projection made prior to the company tax cuts being announced.

This illustrates that opposition to company tax cuts based on the fiscal impact forecasts is problematic. Company tax revenue is affected by many factors, and there should be less concern about the fiscal impacts and more focus on the opportunities for economic growth and investment created by an internationally competitive tax rate.

The current tax rates reflected in legislation mean that by 2021, there will be a full 5% differential between a business with turnover below $50 million and those trading above. This presents a substantial disincentive for a business to grow larger than $50 m and is not good policy for the long term. We recommend policy-makers aim for a single 25% rate for all businesses over a 10 year time frame, which was the ambition of the original enterprise plan. This could be phased in as a one percentage point reduction per year for larger businesses commencing in 2020-21. In this proposition, company tax rates from 2019/20 would be:

Table 3: Recommended further company tax reductions

Year	Businesses under the $50 million turnover threshold	Businesses over the $50 million turnover threshold
2019-20	27.5%	30%
2020-21	26%	29%
2021-22	25%	28%
2022-23	25%	27%
2023-24	25%	26%
2024-25	All entities at 25% tax rate	

Policy Recommendation:

- Implement a single company tax rate of 25% for all businesses (small, medium and large) by 2024-25.

4.2.3 Instant Asset Write-Down

The Government's decision to extend the instant asset write off for small business owners by 12 months to 30 June 2019 is welcome. This is the fourth successive year in which the write off has been extended. There is a strong case that instant tax right off of purchases up to $20,000 for small businesses should be a permanent part of taxation regulation.

In addition to stimulate large-scale investments, consideration should also be given to an instant asset write-off for eligible depreciable assets valued above $20,000 propose by the Labor opposition. This provides an upfront deduction of 20%, with the balance depreciated in line with normal depreciation schedules after the first year.

This does not change the overall taxable base associated with investment in an asset. It simply changes the depreciation profile, by bringing forward the tax deductable depreciation benefits for businesses investing in new assets. This targeted and direct approach will stimulate investment in machinery, plant and equipment, particularly for investment intensive industries.

Policy Recommendation:

- Make permanent the instant asset write-off on new investment up to $20,000
- Introduce a 20% instant asset write-down for new investment in eligible depreciable assets valued above $20,000.

4.2.4 Ongoing regulatory reform

The Government should show strong leadership on regulatory reform. In an age of rapid commercial disruption, policy makers must ensure that new entrants are subject to the same laws and regulations as incumbents. At the same time, care must be taken to ensure that regulation encourages innovation, effectiveness and efficiency, while supporting the public good. Regulation must remain fit-for-purpose and take account of changes in business models and the impact, real and potential, on the provision of goods and services.

Key priorities in relation to reducing red-tape for business include:

- *Harmonisation*. Regulations should be harmonised across the state and territories where relevant. This should be addressed through the COAG process as a matter of urgency.
- *Ensure consistency of regulation for all businesses.* Foreign entities or tech disruptors should be subject to same regulations as domestic entities.
- *Regulation must be fit for purpose*. This should be determined through industry liaison. Australian businesses tell us of instances where they have to comply with regulations that are not relevant to their industry. As part of the COAG process a national audit should be conducted.
- *Regulation must be easy to read and follow*. This can be better achieved by the use of plain language, easy to read forms, short documents, and consistent definitions. For example, there are numerous definitions of "small businesses" for the purposes of regulation.
- *Regulation must be nimble, agile and adaptable*. Regulations and those who administer them must be able to change rapidly as circumstances demand.
- *Greater use of technology should be utilised to identify and simplify regulation and reduce red tape*. Single touch payroll is a good example of how technology can be used to reduce red tape.

Strong leadership on a regulatory reform agenda is important. The Government has previously championed and raised the profile of red tape reform across government through initiatives such as the red tape repeal day, establishing deregulation units in each department and publishing the Australian Government Guide to Regulation.

Policy Recommendation:

- Lead on regulatory reform

4.2.5 Improve access to finance

An outcome of the Banking Royal Commission has been a tightening of lending requirements, particularly for small business. Finance institutions are increasing the administrative burden on businesses seeking to renew or take out new loans. This is proving to be a major constraint on many small business seeking new capital to grow their business, or simply to stay in business.

The RBA has identified access to finance as a problem for small business even those who have a good credit history. Actual behaviour and performance of lenders needs to monitored closely against codes of conduct; complaints should be investigated promptly; and enforcement action taken in a timely and effective way.

Policy Recommendation:

- Review prudential regulations and capital requirements that increase the cost of capital for small businesses.

4.2.6 Australian Securities and Investment Commission (ASIC) Fees

The Australian Chamber supports the application of government fees and charges where they reasonably reflect the costs of delivering services and where these costs would otherwise be borne by the taxpayer. It is appropriate for ASIC to continue to charge fees where there is a clear link between the fee and the benefit offered in return.

However, the recent review of registry fees has shown that ASIC's fees and charges are in excess of cost recovery. The Chamber considers there is scope to reduce or abolish fees, while maintaining a user-pays funding model.

The Chamber is most concerned about the annual review fee and its impact on small and medium sized businesses. A proprietary company pays the same fee, regardless of the size of the business, with the fees having a greater impost on smaller business. This fails to satisfy basic principles of equity.

ASIC has previously argued that charging a fee incentivises companies to interact with ASIC each year, as well as keeping their data up-to-date and considering their ongoing solvency. However, the Chamber contend that this could be achieved with a dramatically reduced fee or alternative mechanism.

Policy Recommendation:

- Reduce the current registration cost and ASIC's annual renewal fees by 50% for businesses with a turnover of less than $5 million per annum.

4.2.7 Research and Development (R&D) Tax Incentives

R&D Tax Incentive (RDTI) provisions of the *Treasury Laws Amendment (Making Sure Multinational Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018* (the Bill) put at risk business investments in R&D.

The RDTI was first introduced in 1985 with the aim of encouraging Australian industry to undertake R&D activities. Since then the R&D tax provisions have undergone a number of significant changes. The constantly changing R&D landscape creates additional administrative and compliance costs for Australian businesses. Consistency in R&D tax policy settings provides investment certainty to businesses.

While we strongly and consistently support measures to improve the targeting of expenditure and greater integrity, we do not support cuts to the RDTI. The R&D tax amendments proposed go further than increasing the integrity measures surrounding the RDTI – it reduces the amount of government funds supporting Australian R&D activity.

We recommend that the Government ensure that any cost control or targeting mechanism, such as the intensity measure, is done in a way that decreases program complexity and encourages particularly smaller businesses to invest – the proposed mechanism does neither.

We are concerned that changes included in the bill will result in incentives too low to drive investment in Australia when compared with the level of support available in other jurisdictions, and that the reforms miss an opportunity to stimulate more local industry and research institute R&D collaboration.

Policy Recommendation:

- Review proposed changes to R&D tax incentives

4.3 Skills and Education

Recommendation Summary

- Complete the consolidation of resources focused on labour market and skills needs analysis and allocate sufficient resources to deliver an updated workforce development strategy in 2019-20, and every second year thereafter
- Rationalise and improve federal government career and labour market websites, upgrade the school-facing career education strategy to a career development strategy for lifelong career advice and information, and make it easier for industry knowledge to become available to career planners, students and job seekers.
- Maximise the return on investment in apprenticeships by establishing a program to assist each industry to identify the most appropriate pre-apprenticeship and school based pathways in order to deliver the best outcomes for students and job seekers.
- Implement an additional kick-start apprenticeship incentive from 1 May 2019 to 31 December 2019.
- Establish a National Apprenticeship Board.

- Allocate $10 million to the Real Skills for Real Careers marketing strategy, turning it into a well-funded campaign
- Increase the caps on VET Student Loans where evidence demonstrates inadequacy in covering the cost of delivering quality courses that are meeting industry needs.
- Higher education reform should be restarted based on: evidence of graduate outcomes; as part of a review of tertiary education in general; and, the extent to which the education system is meeting the needs of the labour market.

One of the areas where increased investment by Government can be justified is in the development of skills provided it is effectively designed and targeted. Over the last decade we have seen substantial increases in federal government investment in early learning, schools and higher education, but a reduction in investment in vocational education and training. As a long term goal, the role of the Commonwealth Government versus the States and Territories in all levels of education and training requires a strategic overhaul as there is increasing duplication and cost shifting across the system. In the meantime, there are a number of actions that can be taken by the Federal Government to improve skills development.

4.3.1 Improve Workforce Development Planning

The improvement in labour market analysis and forecasting in the Department of Jobs and Small Business is acknowledged. However, there is a long way to go before decisions regarding skills and training needs, as well as skilled migration occupation lists and employment policy and programmes are consolidated. It is essential that this rationalisation continues and then leveraged to ensure strong analysis of current and future skill needs is released to industry and career planners in a timely way.

The now-disbanded Australian Workforce and Productivity Agency previously issued a biannual workforce development strategy from 2008 to 2012. It also worked with state and territory workforce planning experts. Whether this function is performed by a separate agency, or within a department operating with the support of an independent advisory board, it is essential that a process to develop a strategic plan for workforce development is put in place. This function is all the more important since skills shortage as well as a better informed careers market have emerged as key priorities for the business community. A regular workforce development strategy will make the connection needed between labour supply and demand, and identify gaps in the skills development effort.

Policy Recommendation:

- Complete the consolidation of resources focused on labour market and skills needs analysis and allocate sufficient resources to deliver an updated workforce development strategy in 2019-20, and every second year thereafter.

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4.3.2 Better Career Information and Advice

Governments, fee paying students and employers will benefit if courses being delivered are, to the best extent possible, meeting the needs of the labour market. Meeting this objective requires a well-informed market and strong industry-voice within the education and training system.

In previous pre-budget submissions, the Australian Chamber called for action on an updated Career Development Strategy and the funds to implement it. Although funds were allocation to a career education strategy, the scope was limited to school students and the strategy not strong or inclusive enough to make a major difference on the ground.

At the federal level, urgent action is needed to have a whole-of-government approach to career information, including a rationalisation of the public facing career websites. Outcomes would be improved by concurrent action on the consolidation of labour market analysis (see 4.3.2). Action is also needed to make it easier for industry knowledge to become available to career planners, students and job seekers.

Across governments, the federal government should take the lead in converting the career education strategy into a broader career development strategy covering lifelong access to information and advice, and develop an agreed set of actions with the State and Territory government, industry and career stakeholders to implement the strategy.

The VET information site, *training.gov.au* and the higher education equivalent *qilt.edu.au* should be targeted for further improvement to ensure students, parents and career advisers have the latest information about graduate employment and salary outcomes and student satisfaction. Most importantly, the sites need to be better publicised to ensure that students and job seekers are fully aware of outcomes being achieved. The Australian Chamber has consistently called for *qilt.edu.au* to have a change of brand and domain name as it is not intuitive as a location for information about higher education course outcomes.

Policy Recommendation:

- Rationalise and improve federal government career and labour market websites, upgrade the school facing career education strategy to a career development strategy for lifelong career advice and information, and make it easier for industry knowledge to become available to career planners, students and job seekers.

4.3.3 Apprenticeship kick-start and National Apprenticeship Reform

The Australian Chamber welcomes the Government's affirmation made in November 2018 that all monies collected under the Skilling Australians Fund (SAF) Migration Training Levy will be invested in the Vocational Education and Training sector. Although it is disappointing two states did not sign up to the SAF, it is time to focus on obtaining the best outcomes from the focused apprenticeship investment.

The unallocated funds in SAF arising from the non-participation of Victoria and Queensland and theunderspend in 2017-18 should be applied to:

- An additional kick-start commencement incentive to employers of $2,500 for trade apprentices and $1,500 for trainees to operate from budget night (or at latest 1 May 2019) for eight months to 31 December 2019.
- Promotion of the kick-start incentive throughout the period
- Extra support for mentoring over the six month period to focus on completions of trade apprenticeships.
- Programs aimed at improving pre-apprenticeships and apprenticeship pathways from school (see below)

Key features of this proposal are:

- It focuses on traineeships as well as trade apprenticeships
- It is supported by evidence. It was clear from the removal of incentives for traineeships in 2012, the impact this loss had on the number of commencements. For the trade, the evidence from the last kick-start additional incentive in 2008 also strongly supports its chance of success.
- That the incentive should be applicable to all trainees and apprentices including those excluded by the damaging 2011-12 changes such as Cert II, part time and existing employees traineeships, but with appropriate boundaries that address concerns. For example, employers of trainees who are transitioning from casual work while at school to a full time traineeship post-school should be eligible, as should trainees employed on return to work after caring responsibilities who may only be able to work part time. In addition, Cert II incentives could potentially only be available to small businesses.

The return on investment in apprenticeships through the SAF and other federal and state program will be improved by focusing on two key areas of reform. These are:

Pre-apprenticeships – These are a key feature of the SAF and it is important to ensure various different approaches do not emerge based on small industry groups or individuals operating at state level. Industry is keen to play its part in that coordination, but a more efficient and effective approach needs to be initiated. To achieve this, a review of pre-apprenticeship pathways on an industry by industry basis is needed to encourage the coordination and establish clearer guides to what will be acceptable. This will also capture what pre-apprenticeships could be delivered in schools, and ensure that problems created by competency based progression do not limit the opportunities for young people to take up apprenticeships beyond school.

VET for School Students - With a similar goal in mind, the Government also needs to also establish a national process that:

- Identifies at each industry level the most relevant and useful vocational training to be delivered to school students (both in terms of qualifications and quality of delivery),

- Examines the barriers to school-based apprenticeships while working with industry, school sectors and states to improve opportunities.
- As a complement to VET delivery, explore the possibility of an applied learning elective subject(s) in Year 11 and/or 12 that allows students to apply academic learning in practical contexts and incorporates pre- apprenticeships or VET pathways that will better articulate to further education and apprenticeships beyond school.
- Differentiates vocational learning from VET with the aim of ensuring that VET qualifications are only delivered when the ingredients for quality delivery exist; otherwise develop a more common view of the opportunities for vocational learning that will achieve school goals of engagement as well as employability outcomes.

The Government needs to establish National Apprenticeship (Trades) Board to determine, at a national level, which VET qualifications are suitable for apprenticeships and traineeships. This would support a single national approach to determining which qualifications are apprenticeships and traineeships and the duration of that program. With agreement of the States, this would be a delegated authority to take over the role undertaken in each of the eight jurisdictions.

4.3.4 Establish a national apprenticeship advisory board

The Australian Chamber has been an advocate for a national apprenticeship leadership body since before the SAF was announced and has consistently argued that the SAF negotiations would have been improved and completed in a more timely way if an advisory board had been established on commencements of the SAF negotiations. It is not too late to act.

The apprenticeship advisory board will seek to inform the implementation of projects submitted under the SAF National Partnership Agreements, as well as provide input and oversight on national reform projects (as suggested above) and improvements to the apprenticeship system including promotional effort.   The Board would also be well positioned to examine any issues in the apprenticeship system that are creating barriers for take up by either the employer or the job seeker.

With agreement through COAG, the advisory board could become a national trades board enabling the efficient delivery of national recognition of qualifications for trades and apprenticeship and traineeship pathways. It is an inefficiency in the system that industry has to deal with eight jurisdictions to advocate for a qualification to be recognised as an apprenticeship, and the differences across the jurisdiction create unnecessary confusion.

Policy Recommendation:

- Maximise the return on investment in apprenticeships by establishing a program to assist each industry to identify the most appropriate pre-apprenticeship and school based pathways in order to deliver the best outcomes for students and job seekers.
- Implement an additional kick-start apprenticeship incentive from 1 May 2019 to 31 December 2019.

- Establish a National Apprenticeship Board.

4.3.5 Marketing of VET

The Government needs to better promote apprenticeships and VET to job seekers and employers. The $5.4 million over four years announced in 2018 MYEFO to promote apprenticeships to be coordinated by World Skills is a useful start, but more is needed. Although there is national effort already in this area with websites, champions and other channels for promotion, there is a need for a national communications strategy and a coordinated and well-funded campaign to promote apprenticeships and traineeships and the VET sector overall. VET is a rewarding and positive pathway for school leavers and develops the skills needed for the future. Another important component is improving information about VET courses and job comparisons as well as accurate information about the benefits of an apprenticeship, especially to careers advisers in schools. Career Advisers are often not full time in that task, and are not sufficiently resourced or equipped to provide up to date information on the benefits of an apprenticeship.

The Government has an opportunity to correct this through the current marketing strategy named Real Skills for Real Careers. Although it is not backed by any resources, it is a step in the right direction and needs to be well funded to create impact in the market.

Policy Recommendation:

- Allocate at least $10 million to the Real Skills for Real Careers marketing strategy to make it a more effective, well-funded campaign.

4.3.6 Improve Funding Equity between VET and Higher Education

VET Student Loans (the replacement for the discredited VET FEE HELP program) provides to students studying higher level VET, in principle, the equivalent support to higher education HECS HELP program. In reality, the two programs are significantly different, with VET Student Loans limited by which qualifications it covers and a three tier cap on the amount that students can borrow. There is also a 25% loan premium paid by students except where states and territories have agreed to assume some of the debt responsibility.

After an extensive consultation process about the Course List and caps instrument within which the industry participated in good faith over twelve months ago, the government failed to address the shortcomings in the caps and the program that are resulting in a significant reduction in the number of higher level VET qualifications being undertaken.

Policy Recommendation:

- Increase the caps on VET Student Loans where evidence demonstrates inadequacy in covering the cost of delivering quality courses that are meeting industry needs.

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4.3.7 Higher Education

In the last few years, the Australian Government has had two unsuccessful attempts at higher education reform. Although Australia's higher education sector has many strengths, further reform is needed to maximise the public investment and ensure better outcomes for students and industry. Employment and salary outcomes for students are very mixed, with some disciplines achieving great outcomes, while other graduates struggle to obtain more meaningful employment following study.

To inform our input into this important national discussion, the Australian Chamber has identified nine key principles that should guide policy and funding decisions relating to higher education. In summary these principles are:

1. Sound policy requires a holistic approach to tertiary education
2. Higher education students need to be better informed
3. There should be equitable access, stronger pathways and greater choice in higher education
4. Higher education should be industry-informed
5. Higher education funding and reform should be evidence-based
6. Higher education should be delivered through high quality teaching and strong regulation
7. Higher education funding requires greater transparency
8. Student contributions to higher education should continue
9. Higher education funding should be fiscally responsible and outcomes driven

There were many aspects of the Government's 2017 reform proposals that were aligned with these principles and were supported including:

- A lowering of the HECS HELP income level in line with evidence
- Introducing a performance component into the funding to link funding to student outcomes
- Stronger commitment to equity funding for lower socio economic and disadvantaged students
- Support for Work Integrated Learning to be a stronger feature of higher education delivery

The extension of sub-bachelor funding only to universities and not private providers was not supported. Changes in sub-bachelor funding should only occur if it includes all accredited higher education providers and is done as part of a holistic discussion about tertiary education to ensure the impact on VET is taken into account. This is particularly important given the regulatory and cost restrictions around VET Student Loans and the reduced funding by the States/Territories of higher level VET qualifications.

Given the significant increase in funding for higher education, the efficiency dividend cuts and across-the-board shift in student contribution increases proposed in the final budget package were understandable but a blunt instrument for fiscal savings. Commonwealth contributions to second undergraduate degrees is one area worthy of further examination as it does not deny equitable access to the initial degree, and the evidence is weak that two undergraduate degrees provides much better job outcomes. Post-graduate funding was also in the proposed reform, and remains worthy of review. Increasingly, young graduates with no work experience are pursuing master's degrees even though in many disciplines maximum benefit of further study at a higher level will be best achieved in the context of work experience.

Finally, higher education reform needs to occur as part of a review of tertiary education in general. Funding and policies of higher education have an impact on VET. There is much inconsistency between the policy approaches to each sector. The review also needs to take into account the extent to which tertiary education is meeting the needs of the labour market. In this context, concurrent progress on a workforce development strategy (see 4.3.2) would deliver a better informed review process.

Policy Recommendation:

- Higher education reform should be restarted based on: evidence of graduate outcomes; as part of a review of tertiary education in general; and, the extent to which the education system is meeting the needs of the labour market.

Recommendation Summary

- Set the cap for permanent migration at 190,000 and sufficiently resource the processing to achieve outcomes close to the cap. Caps for future years should be set according to the evidence of maximum benefit, including an assessment of economic, fiscal and demographic outcomes.
- Allocate sufficient resources to address the extensive delays in the processing of visa applications, including in the labour agreement stream
- Improve access to temporary and permanent skilled migration for regional employers
- Promote better community understanding of the value of skilled migration
- Improve education and access to information relating to rights and obligations under Australian labour laws
- Halve the SAF Migration levies to improve access to skilled migration
- Disconnect the SAF levy from the COAG skills partnership agreement, and guarantee funding for apprenticeships at the announced levels
- Improve the refund policy for the SAF levy so that a refund is available in all cases where the application has not been successful
- Promote better community understanding of the value of skilled migration
- Ensure visa fees and arrangements are internationally competitive
- Improve education and access to information relating to rights and obligations under Australian labour laws.
- Establish a complementary program for employer organisations and trade unions to provide employment information in LOTE to groups of businesses / workers from migrant communities to redress the information gap for such communities.
- Fund business organisations to work with migrant run businesses to provide business to business information on employment law obligations and liabilities. There also be reciprocal / matching funding available to unions to improve their interactions with migrant workers.

- Ensure labour market information is up-to-date and accurate by reviewing Australian and New Zealand Standard Classification of Occupations (ANZSCO) immediately and allocate funds for the review.

In December 2018, the Australian Chamber issued a major policy statement on migration and population entitled *Migration Works for All of Us*[2] . Within this document a number of recommendations are made to improve the migration program. Only those recommendations that have a budgetary impact have been included below.

4.4.1 Maintain the permanent migrant intake

Migration Works for All of Us sets out a detailed case demonstrating the benefits delivered by permanent migration, particularly given the strong component in the intake that are younger skilled migrants. Well educated migrants deliver net economic and fiscal benefits, and any reduction in the intake is a cost to the Federal Budget.

Policy Recommendation

- Set the cap for permanent migration at 190,000 and sufficient resource the processing to achieve outcomes close to the cap. Caps for future years should be set according to the evidence of maximum benefit, including an assessment of economic, fiscal and demographic outcomes.

4.4.2 Improve access to temporary and permanent skilled migration

The Government should ensure all skilled occupations on the skilled migration occupation lists are available for sponsorship by regional employers through an expanded Regional Occupations List, as is currently the case with the interim Regional Sponsored Migration Scheme (RSMS) list. This implies all skilled occupations will become available to both permanent as well as temporary skilled migration with a pathway to permanency but only to regional employers. This creates a positive bias towards regional migration and embeds the connection between the migrant and the regional community through the employer sponsored migration streams (which have the best economic outcomes).

Policy Recommendation:

- Allocate sufficient resources to address the extensive delays in the processing of visa applications, including in the labour agreement stream
- Improve access to temporary and permanent skilled migration for regional employers.

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[2] https://www.australianchamber.com.au/wp-content/uploads/2018/12/FINAL-Australian-Chamber_Policy_Migration_WEB.pdf

4.4.3 Migration Training Levy

Although a training levy was recommended by the 457 Visa Integrity Review in 2014 to replace the previous training benchmarks used in the migration program, the mechanism and quantum of the SAF levy applying to skilled migration was an unwelcome 2017 budget "surprise. The amounts announced in May 2017 ($1,200 per year for small businesses and $1,800 per year for large businesses) were well in excess of the Review's recommendation of $400 per visa holder per annum. In addition, it was subsequently announced that these temporary skilled migration annual training levies would be paid upfront for the whole term of the visa, which was also against the recommendation of the Integrity Review which had recommended annual invoicing. The Budget also announced a training levy for employers using the permanent Employer Nomination Scheme visa of $3,000 (small) to $5,000 (large business) paid at commencement.

The quantum of these levies and how they are applied have had a material impact on access to the migration program. Although there was some shift in the refund policy in the 2018 budget, it is still inequitable that a sponsoring employer cannot obtain a refund of the training levy if their application is unsuccessful other than on health or character grounds. A refund of the training levy should be available in all cases where the application has not been successful.

The hypothecation of the levy to the Skilling Australians Fund, recommended by the Integrity Panel (but at a much lower level) was never intended to be a replacement for monies already invested by the Commonwealth on VET. The use of the fund to strike a new COAG skills partnership agreement given that the previous agreement was funded out of consolidated revenue was an illustration of the decline in investment in VET by the Federal Government. The connection between the fund and the agreement has not worked – it was poor policy from the outset, and the outcomes have demonstrated this. It created funding uncertainty which impacted on the outcomes of the negotiations for a partnership agreement. It also creates a problem in addressing the quantum of the levies which should be half of what they are currently.

Policy Recommendation

- Halve the SAF Migration levies to improve access to skilled migration
- Disconnect the SAF levy from the COAG skills partnership agreement, and guarantee funding for apprenticeships at the announced levels
- Improve the refund policy for the SAF levy so that a refund is available in all cases where the application has not been successful

4.4.4 Promote better community understanding of the value of skilled migration

Much of the recent commentary around migration has been negative, reflecting a superficial understanding of the facts and ignores the strong evidence in support of a balanced and sustainable migration program. The Federal Government, working with state and territory governments and key stakeholders, should develop and implement a communications strategy that strongly reinforces the benefits of migration and need for a balanced migration program. The strategy should also focus on the major skilled migration cohorts, international students and working holidaymakers, in order to educate the community on the enormous and multi-faceted benefits they bring to Australia.

The Government needs to take a leadership position in the migration debate to emphasise the benefits of migration to the broader economy including to influential commentators.

Policy Recommendation:

- Promote better community understanding of the value of skilled migration

4.4.5 Visa Fees

Visitation and migration deliver major economic benefits to Australia. But tourists and migrants have choices. In order to continue to be an attractive destination, it is important that the quantum of visa fees and the application process remain internationally competitive. In recent years, we have seen visa fees rise in real terms.

Policy Recommendation:

- Ensure visa fees and arrangements are internationally competitive.

4.4.6 Dedicated information program for employers and migrants to understand obligations and rights under Australian labour laws

Australia has a strong regulatory framework to protect workers, with all employees entitled to the same rights and protections no matter whether or not they are Australian citizens. However the Australian workplace relations system is complex particularly for both employers and employees who are unfamiliar with it.

While the Government and its Departments have already taken steps to increase enforcement powers and penalties for non-compliance with workplace laws and invest in resources aimed at increasing awareness, more is needed to improve education and awareness amongst both employers and employees. Australia must ensure that the almost one million temporary migrant workers, who are often young, inexperienced and with low English proficiency, are informed and equipped to inquire, speak out and ring the alarm bell before problems persist and minor issues become substantial and persistent.

A dedicated advertising campaign and information program in languages other than English (LOTE) should be funded to better inform migrant workers and their employers on employment rights and obligations, and the protections our system offers. This would work to inform and increase their understanding of employment rights and entitlements under Australian labour laws, and to correct myths and misapprehensions that are stopping migrant employees from asking questions and securing their entitlements. This would complement enhanced enforcement and penalty structures by ensuring migrant employees are familiar with their employment rights and more secure in raising concerns early. Often, employers of migrant workers come from migrant communities themselves and they and their employees could benefit from better education about their legal obligations regarding pay and conditions through innovative information programs in the languages in which business and employment is undertaken.

This is part of a wider message to government from employers that more needs to be done to promote our employment laws and increase both employer and employee understanding of broad rights under the system and where to go for information, and to ensure obligations are being applied correctly. Within an overall framework of budget responsibility and control on spending, better promoting an understanding across our community of employment rights and obligations (and where to go for information and support) seems one area where government can and should spend more money to deliver a critically important outcome.

In considering this recommendation for an ad campaign, we ask that government note:

- Pay compliance will bring higher PAYE taxes to government.
- Improved compliance, day-to-day, should see fewer / lesser calls on government in insolvencies through the FEG scheme.

Policy Recommendations:

- Improve education and access to information relating to rights and obligations under Australian labour laws.
- Establish a complementary program for employer organisations and trade unions to provide employment information in LOTE to groups of businesses / workers from migrant communities to redress the information gap for such communities.

4.4.7 Fund business organisations to work with migrant businesses to improve compliance

Another important target should be more work to break down linguistic and cultural barriers to migrant / LOTE speaker run businesses understanding their employment obligations and meeting them. Government should offer a tender for organisations in the business community to hire / contract legal expertise with language skills to enable them to speak to migrant businesses in LOTE. Translation is important, but it is not enough and many communities have ingrained fear and suspicion of the state. Such businesses will not trust a regulator briefing, the point of difference here is that it would be frank, business to business information with no risk of prosecution. The FWO maintains data on the primary languages spoken by complainants which could be used to prioritise efforts / target groups.

Policy Recommendations:

- Fund business organisations to work with migrant run businesses, and to provide business to business information, behind closed doors on employment law obligations and liabilities. There also be reciprocal / matching funding available to unions to improve their interactions with migrant workers.

4.4.8 Review Australian and New Zealand Standard Classification of Occupations (ANZSCO)

One of the pillars of labour market statistical infrastructure is the Australian and New Zealand Standard Classification of Occupations (ANZSCO). This infrastructure underpins a wide range of labour market data, including information from the Census, and is used for job outlook information and to regulate which occupations are eligible for migration programmes.

Despite major changes to the economy and jobs, including new jobs driven by technology as well as changes to the level of skill needed in certain jobs, ANZSCO has only been reviewed twice since its introduction in 2006 (having transitioned from the previous ASCO codes). A major review of ANZSCO is long overdue. However, the Australian Bureau of Statistics (ABS), custodians of the statistical product are unable to commence a review due to labour and resource constraints and competing priorities. Regular review of major statistical infrastructure such as the ANZSCO needs to built into the normal operating budget of the ABS. The ABS has not even committed to a review in the future, only that it will be considered post the 2021 Census process.

All occupations are experiencing technological progress and the nature of work and job roles are constantly changing. ANZSCO not only identifies new jobs, but it also appraises the duties within their job and assigns an appropriate skill level. A large number of stakeholders across the economy share our concerns, including colleagues from Business NZ. The 2018 OECD Report on *Getting Skills Right in Australia* also highlighted the need to update the ANZSCO since emerging occupations such as cyber security, artificial intelligence experts and others were not included in the current classification.

According to the ABS Forward Work Program released October 2018, the resource required to fully implement the review, is $4 million.

Policy Recommendation:

- Ensure labour market information is up-to-date and accurate by reviewing Australian and New Zealand Standard Classification of Occupations (ANZSCO) immediately and allocate funds for the review.

4.5 Youth Employment

Recommendation Summary

- Reform the PaTH model, Linking PaTH training to a job or experience outcome, and reward training providers who organise the work or experience.
- Fund a trial a new PaTH model by offering long-term unemployed youth structured training concurrent to work experience using a traineeship style model. The experience can then be converted to a structured traineeship.

The level of youth unemployment remains unacceptably high. In a highly competitive marketplace, it is hard for young inexperienced workers to compete for jobs as they often perceived as taking longer to become productive contributors to the organisation. Prior to the introduction of PaTH the Australian Chamber was a strong advocate for an alternative to work for the dole where the unemployed could access experience in real work places. In that context, the announcement of the PaTH program was welcomed although the model we had put forward was not the one delivered. There is much that can be improved upon with the current model and also opportunities to trial the model in ways originally put forward by the Australian Chamber and its members.

4.5.1 Reform the current PaTH model

The financial structures of the current PaTH model only provide a bare minimum for the employability training delivery and no reimbursement for any effort to secure job or internship outcomes. The system at the moment relies on the employment service provider to enter into commercial arrangements with PaTH training providers to share the financial incentives for placements. This may happen in the long term, but unless there is a change in the financial arrangements in the short to medium term, training providers will not be able to sustain assistance in finding job or placement outcomes. This needs to change or the "good" training providers will be lost to the system, leaving only those that are interested in delivering training on a fee for service basis. It also leaves those training providers who have an interest in delivering the second block of training to potentially have a perverse disincentive to see the young person placed after the first block of training.

It is critically important that PaTH training providers, where they are of industry or strongly connected to employers, are involved in the organisation of internships, work experiences and jobs. They are working with the young people for over three weeks and are well placed to identify the best match. The program needs to reward PaTH training providers for work and internship placements and job outcomes.

The Government also needs to ensure that the PaTH training is offered only when linked to an outcome. The Australian Chamber has had a consistent policy position that the training offered through PaTH should only be offered to young people where there is an internship, work experience or job outcome available. As the system is continuing to use the training as a tool for mutual obligation, a great deal of the PaTH funding is being spent on training that has no outcomes for the young job seekers. Another mechanism needs to be found to achieve mutual obligation requirements so that the PaTH funding can be targeted to the delivery of training that achieves job or placement outcomes.

Policy Recommendation:

- Reform the PaTH model, linking PaTH training to a job or experience outcome, and reward training providers who organise the work or experience.

4.5.2 Trial an adaptation of PaTH

The Australian Chamber proposed a traineeship style arrangement, where the vocational training was concurrent to the work experience. This model embraced strongly embedded industry vocational training with units delivered from a certificate II or III traineeship by an RTO. The training could then be recognised should the experience convert to a traineeship, or at the least was relevant to ongoing work in the industry.

Policy Recommendation:

- Fund a trial a new PaTH model by offering long-term unemployed youth structured training concurrent to work experience using a traineeship style model. The experience can then be converted to a structured traineeship.

4.6 Workplace Regulation

Recommendation Summary

- Continue funding the Australian Building and Construction Commission
- Provide additional resources to the Fair Work Commission
- Enhance the compliance capability of the Fair Work Ombudsman

A critical dimension of any structural reform must address the regulation of work. Australian employers want to grow, invest and create jobs which will in turn continue to assist the Australian economy to grow and remain internationally competitive. To do this the Australian Chamber seeks a workplace relations framework that is practical, competitive, balanced, simple and fair.

The workplace relations recommendations contained in this submission are only those which have budgetary impacts. The Government should however not lose sight of the fact that Australia is continuing to fall well short of the mark when it comes to workplace relations. Without broader reform to our workplace relations system we will see serious and significant impacts on the broader economy, labour productivity and our international competitiveness. For our future economic prosperity and success we must ensure that our workplace relations policy framework ensures Australia is an attractive destination for investment and employment, creating flow-on business opportunities for SMEs, local jobs and revenue for the benefit of the whole community.

4.6.1 Enhanced Fair Work Ombudsman Compliance Capability

It is important that Australian employment laws are complied with by employers, employees, unions and registered employer bodies, and properly funding enforcement to effective levels must be one of the key aims of funding the workplace relations portfolio in the budget.

The Fair Work Ombudsman (FWO) plays a key role in the enforcement of compliance with the *Fair Work Act* 2009. The FWO currently has approximately 185 Fair Work Inspectors who conduct investigations, inquiries, audits and pursue enforcement outcomes on behalf of the FWO. There are also approximately 40 lawyers who support these investigators, by providing advice, assessing briefs of evidence and litigating matters in the courts.

The Australian Chamber supports the Government working to stamp out exploitation of Australians at work, particularly amongst younger people. Nevertheless there is an increasing awareness of and concern within the Australian community about non-compliance with workplace laws, and an expectation that there is a 'tough cop on the beat' in this space. Notwithstanding that the FWO represents world's best practice in enforcement, there is clear and increasing community concern that underpayments are too frequent and widespread. Appropriate penalties are in place, and inspection and enforcement have significantly improved, however underpayment continues to happen too often.

Additional Fair Work Inspectors would position the FWO to respond more proactively and strategically to the breadth of this serious problem, and to non-compliance in particular industries, locations, sectors or involving particular cohorts of workers. It would also assist in developing/extending the necessary cultural of compliance in Australian workplaces in order to deliver more consistently on the community's expectations that exploitation of workers will not be tolerated and will be met with serious consequences in a manner beyond current resourcing capabilities of the FWO. More inspectors will also simply put more boots on the ground, more employees will be prompted to check and raise concerns, and more employers will be prompted to check they are getting it right.

It is recommended that funding of the national workplace watchdog, the Fair Work Ombudsman, be boosted in order to fund an additional 50 workplace inspectors across Australia. This should include a pilot program to hire inspectors fluent in key languages other than English, to work with migrant workers and communities, and ensure that migrant workers in particular are better protected from underpayments, and more confident to query pay and conditions.

Policy Recommendation

- Enhance the compliance capability of the Fair Work Ombudsman

4.6.2 Retain and continue to fund the Australian Building and Construction Commission

The Australian Chamber of Commerce welcomes the Government's commitment in December 2018 to provide an additional $3.7 million in funding to the Australian Building and Construction Commission (ABCC) to enhance its ability to enforce and maintain the rule of law on Australia's building and construction sites.

The ABCC plays an essential role in not only protecting freedom of association, but also in the costs of our built environment, the productive capacity of Australia, and our attractiveness as a place to invest and do business. It is vital the ABCC continues to be appropriately funded and resourced in order to ensure increased workplace productivity, reduced disputes and delays and greater cooperation between workers and employers on Australia's commercial building sites.

Since the ABCC came into being, we have seen ongoing validation of the need for its continuation, as it delivers significant benefits to not only the almost 1.2 million construction workers and more than 367,000 small businesses in the building and construction industry, but to the wider community. Without the ABCC we would tacitly approve and entranch fundamental cultural problems in the building and construction sector, growing disregard for the rule of law, important building projects costing more time and money to complete than they should, threats to the wellbeing of participants, damage to the performance and reputation of the industry and the discouragement of investment and job creation.

Policy Recommendation

- Continue funding for the Australian Building and Construction Commission

4.6.3 Appropriately resource the Fair Work Commission

There is clear evidence that the Fair Work Act and its strictures are posing operational problems for Fair Work Commission (FWC), and impacting on its effectiveness. In 2017-18 the FWC took more than twice the time to finalise enterprise agreement approvals compared to its target, with a median time of 76 days against the budget statement target of 32 days. When considering the median time for enterprise agreements approved with undertakings this figure blows out to 93 days.

Delays in enterprise agreement approvals is a significant problem for employers, employees and the broader economy. With productivity across the economy slowing and the underlying budget position during 2018-19 and beyond driven by assumed higher wages growth it is vital that the current delays in enterprise agreements approvals are addressed.

Modest but necessary additional funding is needed to ensure that the FWC can provide a timely and efficient service of enterprise agreement approval. This will complement and support the recent appointment of new FWC members, which employers strongly supported, but which now needs to be backed up through appropriate agency level resourcing. We encourage the Government to further address the current problems being experienced in enterprise approvals by providing additional funding to the FWC to appoint new tribunal members to satisfy the increased workload expected of the FWC.

Policy Recommendation

- Provide additional funding to the Fair Work Commission in order to address the significant delays being experienced in the approval of enterprise agreements.

4.7 Work Health and Safety & Workers' Compensation

Recommendation Summary

- Continue to fund Safe Work Australia to provide effective policy and services.
- Fund the Australian Chamber to provide information and representation to Australian employers, within and beyond its network.

Safe Work Australia (SWA) – Social Partner Funding Arrangements

Safe Work Australia (SWA) is responsible for the development of policies to improve work health and safety and workers' compensation. SWA is jointly funded by the Commonwealth, state and territory governments through an Intergovernmental Agreement (IGA).

The governing body of SWA brings together representatives of state and territory jurisdictions, employers and unions. As a SWA Member, the Australian Chamber, helps determine the operational and corporate priorities of SWA.

Social partner engagement is fundamental to SWA delivering on its statutory functions.

If SWA is to deliver sound and workable WHS and workers' compensation policy, it is essential business be fully represented and able to properly contribute its ideas, input and experience.

The safety jurisdiction generates demands for input and consultation that exceed the resources that peak bodies can allocate to it.

Government previously recognised this and sought to partner with employer organisations and unions at the peak level to secure the consultation input (and distribution of information) it needs to properly and effectively regulate safety and compensation in line with community expectations.

For 30 years (1984-2014) the Australian Chamber and ACTU were funded by the Commonwealth to provide a policy and regulatory interface between employers / unions and SWA (most recently $375,000 per year for three years). This was a proven mechanism to facilitate the dialogue and social partner engagement SWA needs to do its work.

The effectiveness of SWA relies on strong input from all stakeholders, particularly from business. It would be in the interests of everyone involved for the Australian Chamber and ACTU to again be funded for this work to allow wider and deeper representation of industry and worker views and the best possible input to Australian efforts to reduce safety incidents. Restoring this funding would also be consistent with Australia's obligations under ILO standards and COAG Principles for Best Practice Regulation.

The case for again facilitating input to government on safety has been strengthened by the sheer volume of work being undertaken in this area. Since funding ceased in 2014 there has been a COAG Review into the implementation of model WHS legislation, a statutory review of SWA's role and functions, numerous state and territory WHS and Workers' Compensation legislative reviews, a revision of the Australian WHS Strategy and an inaugural National Return To Work Strategy. Most recently, we have seen the first review since implementation of model WHS.

These reviews recommend changes, which again demand employer engagement and input, well beyond the capacities of Chamber funded staffing in this area. It is also critical that there be fit-for-purpose communication mechanisms and implementation support, to complement and advance policy. This is what the previous grant facilitated and it is one of the areas where reduced capacities have reduced services, in particular to support the representation of smaller businesses.

The *Enabling Safe and Healthy Workplaces for Small Business* report confirms the need help to translate WHS regulations into their own context and help in implementing them.

Regulators also need to know more about the management of WHS within SMEs, particularly micro-SMEs, and the effectiveness of regulation in enhancing organisation performance. Greater capacity for policy development, consultation and engagement is crucial for improving WHS practices and regulation in SMEs, and we know the previous grant arrangements facilitated this.

Renewal of funding for the Australian Chamber would allow us to not only consult more broadly and represent industries views at the SWA table, it would allow us to address policy issues SWA are unable to cover and share this with Members. Furthermore, we would be in a position to turn policy and research produced by SWA into practical and meaningful actions and outcomes in more workplaces / for more working people.

The Australian Chamber proposes that the federal government reinstate the contract arrangements for the 2019/2020 – 2021/2022 period to enable the Australian Chamber to provide a coordinated industry response and input into the achievement of the governments objectives as set out in the SWA terms of reference, to assist businesses and particularly small business with ongoing WHS and Workers' Compensation regulatory challenges and to pioneer practical and meaningful programs to address emerging issues by turning theory into practice.

Policy Recommendation

- Continue to fund Safe Work Australia to provide effective policy and services.
- Fund the Australian Chamber to provide information and representation to Australian employers, within and beyond its network.

4.8 Trade and International Affairs

Recommendation Summary

- Release timely data on both importers and exporters to improve the understanding of the characteristics of these companies and to aid policy-making and support services
- Work with private sector representative bodies such as the Australian Chamber to deliver improved services to exporters in a collaborative approach to improve the reach of initiatives and reduce the risk that Government actions "crowd out" private sector led initiatives.
- Continue to collaborate with industry representatives, such as the Australian Chamber and its members, to develop and deliver simple resources for SMEs to capitalise on Free Trade Agreements. These resources should be easily accessible to the public and reduce Non-Tariff Barriers to international trade.
- Accelerate work on the "Single Window" by incorporating private sector initiatives in trade modernisation.
- Undertake economic assessment of our existing and proposed trade agreements to ensure they are delivering (or likely to deliver) economic benefits to Australia.
- Undertake a "stocktake" to consider the value of maintaining bilateral preferential trade agreements where the same nations are party to wider regional agreements.

- Continue to identify and seek to address non-tariff barriers that adversely affect trade, both domestic and international.
- Significantly modify the Trusted Trader programme to embrace the concept of "innocent until proven guilty" through a demerits style application for non-compliance.
- Restore the Export Market Development Grants scheme to $200 million, and streamline and improve scheme administration.
- Restore Tradestart to the previous funding and delivery models
- Cap 2019-20 aid funding commitments, inclusive of climate change funding, at $5 billion. Beyond that, defer the trajectory in increased Aid until such time as the budget provides a secure and ongoing surplus.
- Ensure the financial resources underpinning the Anti-Dumping Commission reflect the reasonable and justifiable workload of the commission, and discourage investigation of frivolous matters or cases that are unlikely to succeed.

The Australian Chamber of Commerce and Industry is a champion of free trade and investment and recognises the importance of getting more Australian businesses internationally engaged. We support the Government's efforts to assist the development of Australian international trade through securing improvements through the multiple fora of unilateral reform, multilateral agreements, regional and bilateral trade and investment treaties.

The benefits of free trade to Australian businesses are about more than just increased exports. While boosting exports increases income, importing attractively priced goods, services and IP benefits Australian businesses by lowering costs. This can boost profitability or increase production by improving competiveness and opportunities to participate in the production of different goods and services through 'global supply chains'. Free flow of investment both in and out of Australia also provides access to new capital for domestic businesses, income generating opportunities overseas, and cutting edge business practices.

4.8.1 The importance of trade data

The ABS[3] details the Characteristics of Australian Exporters, with 2016-17 the latest year available:

- The number of exporters of goods in 2016-17 was 51,992, an increase of 1.4% from 2015-16.

[3] ABS report 5368.0.55.006, http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5368.0.55.006Main+Features12015-16?OpenDocument

- The number of goods exporters remained relatively stable across all industries, with small declines in agriculture, fisheries and forestry (4%) and construction (3%) offset by a small rise in the number of wholesale trade (3.2%) and retail trade (1.8%) exporters.
- The total value of goods exports increased to $291 billion in 2016-17, up 19% from 2015-16. The increase was driven mainly by an increase in good exports by the mining industry (up $39 billion or 35%) and agriculture fishing and forestry (up $3.4 billion or 20%).

Unfortunately, the same level of statistics are not available for Australian importers. The only figures available relate to 2003-4[4]. This report noted:

The number of goods importers was estimated to be 60,661 in 2003-04, an increase of 3,328 (6%). The increase was mostly in importers in the $10,000 and less than $100,000 category, up by 2,209 (7%). The number of service importers fell by 91 to 2,150. Of the businesses engaged in service imports, 1,179 (55%) were also goods importers. Adjusting for the duplication, the total number of importers was derived at 61,632.

We understand that the Department of Home Affairs collects import information and it is assumed that data exists but it appears that it is not publicly released.

Australia should be seeking to expand the number of internationally engaged companies, however, it is essential that we have an informed basis for policy development.

Policy Recommendation:

- Release timely data on both importers and exporters to improve the understanding of the characteristics of these companies and to aid policy-making and support services.

4.8.2 Make trade agreements more accessible to business

The Australian Chamber has welcomed the investment by the Government in recent years, of programmes committed to helping Australian business better understand Trade Agreements. Partly this will be used to support outreach seminars advising of the availability of each of the three North Asian deals, along with support for the development of an Australian online platform/portal that will enable the FTA content to be more accessible to Business. Alongside these developments however we would welcome a closer ongoing relationship between the Australian Chamber, our members and the Government agencies in this field, to support the creation of an internationally engaged commercial sector and to avoid any crowding out of private sector initiatives.

Members of the Australian Chamber deliver a range export development programs and services. The Victorian Chamber of Commerce and Industry, for example, offers an FTA Export Pathway Program, Asia Gateway Voucher Program, export documentation services, migration services, and a Victoria Jiangsu Business Placement Program.

Policy Recommendation:

[4] http://www.abs.gov.au/ausstats/abs@.nsf/featurearticlesbytitle/0FFC229C8BE12B60CA256F85007A1602?OpenDocument

- Work with private sector representative bodies such as the Australian Chamber and our extensive network of business organisations to deliver improved services to exporters in a collaborative approach to improve the reach of initiatives and reduce the risk that Government actions "crowd out" private sector led initiatives.

4.8.3 Increased promotion of government-developed tools

The efforts by the Federal Government to support increased understanding of Preferential Trade Agreement content are to be commended. The Department of Foreign Affairs and Trade 'FTA Portal' is a good example of collaboration between Government and Industry to develop a widely available tool that improves the accessibility of the PTA benefits to businesses. The success of this tool indicates that improving education (particularly amongst SMEs) with respect to PTA's, is a viable method of reducing Non-Tariff Barriers.

We are heartened by the effort of the Federal Government to provide $10.5 million in 2018-19 to the Dept. of Home Affairs to 'transform and modernise Australia's international trade supply chain to deliver more efficient and secure trade processing.' This will be dedicated in large part to the 'completion of an initial business case to provide a 'single window' for international trade documentation, creating a system that is seamless, digital, automated and user-friendly.'[5] However progress on the "Single Window" has been slow.

On the other hand, industry isn't waiting for the Government. The Australian Chamber and partners PwC and Port of Brisbane, have developed a "Trade Community System" through the use of Blockchain Technology. When fully implemented, this will save on average about $450 per container, or at least $1 billion annually to the Australian economy.

However, it is important that the 'single-window' approach is developed with the assistance of peak bodies and industry members, so as to ensure that the functional aspects of the program leverage industry best practice and interoperability.

We would welcome further collaboration to develop and promote these simple tools for SMEs wishing to engage in international trade.

Policy Recommendation:

- Continue to collaborate with industry representatives, such as the Australian Chamber and its members, to develop and deliver simple resources for SMEs to capitalise on Free Trade Agreements. These resources should be easily accessible to the public and reduce Non-Tariff Barriers to international trade.
- Accelerate work on the "Single Window" by incorporating private sector initiatives in trade modernisation.

4.8.4 Need for objective, independent economic analysis

The rationale for trade agreements is to generate net economic benefits and an increase in aggregate trade flows between countries. Objective economic analysis, independent of the

[5] Budget Paper 2, 2018-19 – Budget Measures, p. 133.

negotiating parties, needs to be conducted to provide confidence to both the Parliament and the public that the range of agreements in place and being pursued, are of benefit to the Australian economy.

The Australian Chamber is a staunch advocate for free trade and a strong supporter of the efforts of successive Coalition and Labor governments to liberalise trade and investment and open our economy. We have consistently raised concerns about aspects of Australia's treaty making processes and have monitored the response of government to recommendations from recent treaty inquiries. Notwithstanding significant interest from business, these processes are yet to be reformed in a way that meets these concerns. The private sector, the main provider and creator of jobs in Australia, and a tax payer, wants to be assured that taxpayers' monies are spent wisely in the pursuit of trade agreements.

Policy Recommendation:

- Undertake economic assessment[6] of our existing and proposed trade agreements to ensure they are delivering (or likely to deliver) economic benefits to Australia.
- Undertake a "stocktake" of the value of maintaining bilateral preferential trade agreements where the same nations are party to wider regional agreements.

4.8.5 Non-Tariff Barriers

Despite the preferentially reduced tariffs for qualifying goods in certain markets under various Preferential Trade Agreements, increasingly we are hearing from members that non-tariff barriers (NTBs) are becoming a greater concern.

The B20 often raises concerns with the G20 about the global rise in NTBs, - *Of particular concern to the business community are non-tariff barriers related to localisation measures, state-owned enterprises (SOEs) and public procurement*[7]

NTBs that are preventing many businesses from accessing export opportunities include:

- Challenges identifying and developing relationships with distributors and customers.
- Difficulties navigating local languages, cultures, customs and business practices.
- Costs and uncertainty around the protection of intellectual property.
- Difficulties complying with local laws and regulation (in particular labour and tax laws).
- Restrictions or delays in the repatriation of funds to Australia.
- Resource intensive in-country product testing and validation requirements, some of which may be inconsistent with Australian requirements and practices.

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[6] http://www.pc.gov.au/news-media/speeches/free-trade-agreements

[7] *B20 Trade Taskforce Policy Summary* http://www.b20australia.info/Documents/B20%20Trade%20Taskforce%20Report.pdf

Export quotas as well as sanitary and phytosanitary (SPS) measures also pose restrictions on trade, particularly for exports of agri-food products. These measures can significantly limit market access, regardless of whether an FTA is in place.

It is of considerable concern that nations that espouse “free trade” and sign agreements to this effect, also seek to create and implement new, novel and often much less transparent protectionist measures to support their local industries.

Policy Recommendation:

- Continue to identify and seek to address non-tariff barriers that adversely affect trade, both domestic and international.

4.8.6 Trusted Trader Scheme

The Department of Home Affairs is implementing a “Trusted Trader” (TT) scheme and currently around 150 companies have become “Trusted Traders”. The Department seeks to dramatically increase this level of participation.

The Australian Chamber supports the intent of this scheme but we question the design as the scheme and the benefits on offer. In relation to this we make the following points:

- While “trusted” traders may be part of this scheme, it automatically places those not in the scheme in the “untrusted” group, even though they don’t pose any particular risks. We are hearing anecdotally that international buying companies are beginning to enforce TT compliance as a requirement for commercial dealings. This means it is becoming a barrier to trade.

- The scheme adds costs and compliance to companies that prior to the scheme, in general, already complied in terms of safety and regulatory compliance. Hence, it adds costs and red tape to otherwise compliant companies.

- We have argued that the design would be better if it assumed compliance for all companies unless they demonstrate non-compliance. That is, a demerits based scheme rather than a merits based scheme. Such a scheme in other places means points are removed from full compliance based on indiscretions rather than needing to demonstrate compliance in the first instance. Such a scheme would mean all traders were “trusted” until proven otherwise – an approach consistent with common law.

- We have also offered that the existing Certificate of Origin registration process and engagement, provides the basis for the “know your client” components necessary to create the foundations for such a scheme. We would be delighted to work with the Department to improve the scheme – particularly for SMEs.

Policy Recommendation

- Significantly modify the Trusted Trader programme to embrace the concept of “innocent until proven guilty” through a demerits style application for non-compliance.

4.8.7 Competing in developing markets

Increasingly global trade is being dominated by global supply chains. That is products are "made in the world" not in one country or another. Similarly services are increasingly delivered through cross border supply and the internet. Australia is a long way from major markets and those we regard as in our neighbourhood are also being targeted by other competitors. Australia cannot rely on reputation alone as our key competitive characteristic. We must continue to strive to reduce costs and increase innovation in order to maintain and grow our globally competitive position.

The Government needs to seriously commit to deep engagement in global supply chains and develop an appropriate programme to assist business to engage in them. The Australian Chamber, with its unparalleled international network, would be a willing partner in such an initiative.

The Export Market Development Grants (EMDG) scheme, administered by Austrade, partly supports export promotion expenses of eligible enterprises in order to boost exports of Australian produced goods and services. In recent years the EMDG scheme funding has fluctuated between $125 million and $200 million. The 2015 review of the EMDG found that for every one dollar invested, seven dollars were returned to Australia. In our efforts to drive growth and jobs, such a scheme cannot be underfunded.

Along similar lines, TradeStart has become an essential front line delivery program for Austrade which engages the SME exporter and delivers substantial contribution for Australia. Continued underfunding to the TradeStart budget and limitations on the ability to deliver services to emerging exporters has seriously diluted the ability to grow our SME export community and previous funding and delivery models be re-instated.

Policy Recommendation:

- Restore the Export Market Development Grants scheme to $200 million, and streamline and improve scheme administration.

Policy Recommendation:

- Restore Tradestart to the previous funding and delivery models.

4.8.8 Official Development Aid

The Australian Chamber is supportive of Aid for Trade approaches where aid investments assist to improve trade facilitation and market access for Australian products and services. The principle means for alleviating poverty is economic development.

Australia had previously committed under the Millennium Development Goals to provide 0.5% of GDP in Official Development Aid. While this is a worthy goal, in the context of improving the federal budget position, Australia needs to retain a prudent approach to reaching this goal.

Australia has also continued to make commitments for climate change financing in the most recent international climate change negotiations. The Australian Chamber supports all forms of international investment in climate change and aid being considered in a combined package in reaching our commitment of 0.5% of GDP in aid funding.

Policy Recommendation:

- Cap 2019-20 aid funding commitments, inclusive of climate change funding, at $5 billion. Beyond that, defer the trajectory in increased aid until such time as the budget provides a secure and ongoing surplus.

4.8.9 Anti-Dumping Commission

Anti-dumping remedies, and some other appropriate trade remedies, are allowable under our WTO commitments and form an important avenue to address predatory pricing from international competitors, but we cannot allow our anti-dumping system to become a vector for protectionism.

It is important that our Anti-Dumping Commission operates in a way that embraces the stimulatory effects of healthy international competition while providing appropriate assistance to those impacted by predatory behaviour.

There have been increasing calls for greater activity (and therefore increased budget) in the actions and investigations conducted by the Anti-Dumping Commission. The actions of the ADC should be supported by a national interest test that assesses the value of any action to the entire economy and not just the directly impacted companies or industry.

Policy Recommendation

- Ensure the financial resources underpinning the Anti-Dumping Commission reflect the reasonable and justifiable workload of the commission, and discourage investigation of frivolous matters or cases that are unlikely to succeed.

OUR MEMBERS

Australian Chamber of Commerce and Industry

CHAMBER

- Business SA Chamber of Commerce and Industry South Australia
- Canberra Business Chamber
- Chamber of Commerce Northern Territory
- CCIQ Powering business potential
- Chamber of Commerce and Industry WA
- NSW Business Chamber
- TCCI Invigorating Business
- Victorian Chamber of Commerce and Industry

INDUSTRY ASSOCIATION

- accord
- AMCA
- Animal Medicines Australia
- afa Great advice for more Australians
- ais nsw
- Australia Arab Chamber of Commerce & Industry
- AADA
- Australian Beverages
- ADA Australian Dental Association
- ADIA Australian Dental Industry Association
- AFEI Australian Federation of Employers & Industries
- Australian Gift & Homewares Association
- AHA
- aicm Australian Institute of Credit Management
- Australian Made
- AMPC
- AMMA Australian Resources & Energy Group
- AMTA Australian Mobile Telecommunications Association
- apmf
- ARIA Australian Recording Industry Association
- ARITA
- Australian Retailers Association
- ARTA
- ASMI Australian Self Medication Industry
- Australian Steel Institute
- ATEC Australian Tourism Export Council
- ATIC Australian Tourism Industry Council
- ATA Australian Trucking Association
- AVA Australian Veterinary Association
- BIC Bus Industry Confederation moving people
- Business Council of Co-operatives and Mutuals
- Caravan Industry Association of Australia
- Cement Concrete & Aggregates Australia
- Chemistry Australia
- CAA
- CMAA
- Consult Australia
- COPHE Council of Private Higher Education
- CPA Australia
- CLIA Australasia
- Customer Owned Banking Association
- Direct Selling Australia
- Exhibition & Event Association of Australasia
- Fitness Australia
- Franchise Federation
- HIA
- LFRA Large Format Retail Association
- Live Performance Australia
- Master Builders Australia
- master plumbers Expert. Committed. Professional.
- MTAA Medical Technology Association of Australia
- Medicines Australia
- NALSPA
- NDS National Disability Services
- neca national electrical and communications association
- nesa national employment services association
- National Fire Industry Association
- NRA National Retail Association
- NRMA mynrma.com.au
- NSW HCA The voice of the Hire Car Industry
- NSW Taxi Council
- Outdoor Media Association
- The Pharmacy Guild of Australia
- ppca
- Primerus
- Printing Industries Association of Australia
- rcsa Leading in the world of work
- Restaurant & Catering
- SAP
- The Tax Institute
- Think Brick Australia
- VACC You're in good hands