Business Council of Australia

National Reconstruction Fund

Investment Mandate

February 2023

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1. About this submission

This is the Business Council's submission in response to the consultation paper on the investment mandate for the National Reconstruction Fund (NRF).

The BCA represents businesses across a range of sectors, including manufacturing, infrastructure, information technology, mining, retail, financial services and banking, energy, professional services, transport, and telecommunications.

2. Key recommendations

To ensure the NRF delivers the step change needed for higher paying, more secure jobs, investments need to be made where:

- The investment leverages private investment – not crowding it out – and provides further opportunities for co-investment with business investment.
- The investment encourages tripartite investments from industry, academia, and government to establish durable and cooperative effort that can deliver change at scale.
- The investment will be truly productivity enhancing, and support diversification of the economy or back in an existing area of strength.
- The investment is based on evidence of competitive advantage or potential for demand to reach a global scale.
- The investment is in an area that generates an export-oriented or high value-added product.
- The investment takes advantage of Australia's highly educated workforce to create high paying jobs.

Further, the BCA recommends:

1. That the Investment Mandate for the National Reconstruction Fund:
    a. include a clear expectation that part of its investment be directed towards the development of a select number of internationally significant industry precincts,
    b. be directed towards areas where investment wouldn't otherwise occur,
    c. enable and support industry consortia bringing forward proposals, particularly where it involves collaboration between business and academia,
    d. support regional communities, particularly those going through economic transition or reliant on carbon intensive industries,
    e. enable the NRF to provide a 'brokering service' for proponents and other investors, to attract investment in Australia to complement and leverage the NRF, and
    f. funding focus on supporting co-investment and withdraw funding once an industry has reached scale.
2. The return on investments should consider not only meeting Commonwealth borrowing costs, but also wider contextual factors, such as the jobs created.
3. Where investments are made by the NRF, government should evaluate the macroeconomic reasons why private investment was not occurring.
4. The establishment of a 'regional transition body' in addition to the NRF to advise government and manage the transition of regional economies and workers dependent on carbon-intensive industries.

5. The creation of a National Future Industries Council, reporting to National Cabinet, and composed of experts from industry and the research community on commercialisation, industry development, and the long-term issues facing Australia's capacity to develop the industries needed for future prosperity. Initially, the council should be asked to:
    a. advise on the steps needed to prepare Australia's industrial base for a clean-energy future, including laying the groundwork to become a clean-energy exporting superpower.
    b. a new whole-of-nation strategy for research commercialisation, particularly focused on each of the NRF's priorities.
6. Jobs and Skills Australia (JSA) be tasked with developing workforce strategies, including the role of migration, for each of the NRF priority streams, with extensive consultation with industry and education institutions, to sit alongside the co-investment plans being developed.

3. Overview

We support the government's moves to establish the NRF. The establishment of the $15 billion fund will be an important step towards diversifying and transforming Australia's industries and economy.

But getting it right will be critical. Despite the best intentions, historically efforts to modernise Australia's industry or to deliver new industry formation have not led to the step changes we need. There is little in the way of evidence-based analysis of the support that has been provided. Grants have been issued or support provided to sectors or individual businesses.

If we carry on down this path, Australia will not see the change in its industrial base that it needs to prosper. Instead, a clear-eyed view is needed about: what are we already good at? What can we be good at? And what must we be good at?

If government support is levied in other areas, a very strong case needs to be made. Where support is provided, government also needs to clearly set out why it is doing so, rather than creating the conditions for the private sector to invest.

In areas that do fit with Australia's strengths and needs, an enduring model to support scaling up of industries needs to be established. This can't be done through grants: where government steps up its support, it needs to do so as a co-investor and be ready to withdraw once the industry has reached appropriate scale.

The need to deliver a better approach has only become more urgent. Australia will continue to face the changes that are creating new pressures for Australia's economy and society. These include:

- an ageing population, mitigated only through skilled migration
- the impact of digitisation and technology
- a decarbonising economy,
- concerns of supply chains, highlighted through the recent pandemic
- changing geopolitics, and
- a rising Asian middle class.

To respond to these challenges, we need to reshape the economy into a high wage, high productivity one. It is essential that Australia's economy be flexible and nimble to overcome these long-term challenges. Australia will move towards the global frontier more quickly by developing genuine industries of the future that will create jobs and sustain the living standards of Australians. This means creating an environment conducive to creative, business-led growth, hiring, investment and innovation.

To deliver on this, there are fundamental principles that must underpin the NRF investment mandate. Through the investment mandate, the fund should be asked to make investments where:

- The investment leverages private investment – not crowding it out – and provides further opportunities for co-investment with business investment.
- The investment encourages tripartite investments from industry, academia, and government to establish durable and cooperative effort that can deliver change at scale.
- The investment will be truly productivity enhancing, and support diversification of the economy or back in an existing area of strength.
- The investment is based on evidence of competitive advantage or potential for demand to reach a global scale.
- The investment is in an area that generates an export-oriented or high value-added product.
- The investment takes advantage of Australia's highly educated workforce to create high paying jobs.

To have a future made in Australia, Australian workers must make the goods and provide the services that are needed globally. We must be honest and acknowledge that Australia's domestic market is not big enough alone to grow the future industries that will secure prosperity for future generations: we need to look at how we can export to the market opportunity that is at our doorstep. We will need to partner with other countries in our region to develop markets and products and continue to draw in foreign investment.

Moving beyond budget-cycle driven and small-scale grants will be critical. Past approaches have only rarely backed the underlying capabilities necessary to enhance future economic growth. Going forward, we need to partner our strengths with the most relevant capabilities. These capabilities are not just niche or outlying activities. They are the proven ability to deliver high-value products and services.

These capabilities must:

- Be integral or synonymous to the success of an existing or emerging industry in Australia.
- Be related to a distinct and measurable cluster of economic activity.
- Either be commercialised or have the potential to be commercialised through market activity.
- Have the potential to be applied and integrated across the economy.

Backing in these capabilities and taking an export-oriented approach will be the only way to get the scale we need to grow the industries that will provide high-paying, secure jobs for Australians. We must look at where we can be competitive in global markets. We must make the differentiated, high value goods that are critical for global supply chains. This will mean working closely with communities in urban and regional areas to ensure that the benefits of transition are available across Australia.

Australia has prospered from using its strong natural resources to develop economic opportunities in carbon intensive industries and agriculture. This has led to a concentration of economic activity in these sectors, with iron ore, coal, and natural gas exports alone worth $314 billion or 53 per cent of our exports in 2021-22.

These sectors have delivered Australia prosperity in past decades. They will continue to be part of supporting Australia's prosperity. Going forward, we can also seize the opportunity to use these sectors as a foundation as we redefine Australia as a frontier nation. They must and will evolve, with existing high emissions sectors such as iron ore processing and steelmaking will transition as part of the economy decarbonises. Similarly, other natural resources will also make up an increasingly part of Australia's economic activity – such as the critical minerals that support renewables and battery technologies.

This means being at the cutting edge of driving new means of wealth and value creation, adopting innovation and new technologies, and growing new industries and skills.

We are only part of the way through a global transition driving us towards net zero emissions — one which is being spearheaded by the global investment community. Our economy is heavily reliant on emission intensive industries for much of its wealth creation — with one in four jobs currently in emission intensive industries.

Fully decoupling economic growth from emissions growth will not be easy. It requires a strategic approach to diversifying our economy and innovation to close the technology gap inhibiting emission reductions in hard-to-abate sectors. It will mean building up the new and repurposed infrastructure before we attempt to move away completely from incumbent systems.

A planned approach to a clean-energy future is needed, and the NRF has a key role to play in this, alongside other important policies like the Powering the Regions Fund, the Clean Energy Financing Corporation, the Australian Renewable Energy Agency (ARENA), Rewiring the Nation, among many others.

We also cannot rely on a return to an idealised past of manufacturing in Australia. Australia is not going to go back to the 'old ways', of building a car from bonnet to boot.

One of Australia's main competitive edges is our highly educated workforce. Success in manufacturing will no longer be determined by the cost of labour. Instead, it will be determined by the ability to deploy new technologies to make high value-added products. This is why the greatest demand in the manufacturing sector is for workers in *advanced manufacturing*.

This should be a welcome change for Australia: labour costs will become an increasingly small part of the costs of production. Instead, competitiveness will be determined by our ability to harness and use new technologies. This will require Australians with the right skills and training. If we make this change, Australians can have higher wages and better conditions.

The sector is already evolving – while the manufacturing jobs of yesterday are not going to come back, strong growth in with advanced manufacturing and design skills are expected in Australia.[1]

These twin trends – towards a decarbonised but more advanced future – should give Australians hope. Australia is well placed to take advantage of both.

But getting there will require government to take a coordinated approach to policy responses.

3.1 A coordinated approach

Appropriate government intervention in Australia's industrial base and support for areas of strength have been hampered by a fragmented and uncoordinated approach (across successive governments) to intervention.

Getting from where we are today to where we want to be will require a coordinated effort across portfolios at every level of government. Federal, state and territory, and local governments must drive towards the same priorities, with complementary – not competing – programs and supports.

This also applies inside governments. Siloed bureaucracies driven by budget cycles need greater literacy about *how* to grow future industries and what pressure points need to be addressed.

The NRF will be one critical piece to an overall industry transition. But it needs to form part of a wider more strategic and coordinated approach.

There are many government financing bodies…

The NRF will not be operating in isolation: there are a range of government financing bodies that will be operating in the same space, such as the Powering the Regions Fund, the Clean Energy Finance Corporation, the Medical Research Future Fund, Export Finance Australia, the Australian Business Growth Fund, among others. This is on top of the funding and financing offered by states and territories, such as Breakthrough Victoria.

[1] https://www.nationalskillscommission.gov.au/sites/default/files/2022-03/2021%20State%20of%20Australia%27s%20Skills_0.pdf p121.

Government needs to provide a clear sense of how each of these funds will be interacting, to ensure investors can get a timely response to proposals and to reduce the risk of 'forum shopping'.

This provides a positive opportunity as well. The NRF will be an excellent vehicle to introduce different investment opportunities and partnership opportunities. This can mean providing a 'brokering service' – so even if an investment is not suitable for the NRF, it can connect investors with the appropriate financing vehicle (inside of government or in the private sector). It could also focus on forming a strategic financing or VC-style funding similar to the work of Breakthrough Victoria. The NRF can also help broker relationships with other investors, particularly where appropriate checks have been undertaken (e.g. governance).

This will support the involvement of SMEs in NRF investments, who might not otherwise be able to support the scale of investment available through the NRF.

… and government already spends a lot in other ways

Moreover, these funding and financing programs are also on top of substantial investments made through other arms of government to support and grow industries, such as the Commonwealth's Infrastructure Investment Program (and the infrastructure investments run by state, territory, and local governments), the Defence Integrated Investment Program, regional funding programs, support through R&D tax incentives, the skills and migration systems, among many others. These are on top of funding and incentives provided by the states and territories.

The decisions made on where funding provided through these programs needs to be made with an eye to how they support industry transition and avoiding crowding out private investment. Coordination will be essential. All parts of government must back in the priorities set out under the NRF. For example, transport infrastructure investments, could be deployed to support new industries through enabling freight links, connections to markets or export hubs.

Government should consider how NRF investments can also be supported, through housing, services, and social infrastructure. We understand parts of this will be delivered through the co-investment plans being developed for each of the priority sectors. These plans need to show where genuinely new investments are being made to support the priorities, rather than repeating existing government actions, and include state and territory governments. These should also draw on lessons from overseas models – such as the Catapult Network in the United Kingdom– which were founded on the tripartite model of support from industry, academia, and government.

To deliver on the potential of the NRF and transform and diversify Australia's industry and economy, we recommend:

- The NRF investment mandate enable it to provide a 'brokering service' for proponents and other investors.
- The establishment of an ongoing regional transition body, and
- The creation of a National Future Industries Council, reporting to National Cabinet

A National Regional Transition Taskforce

Government, industry, and communities also must work together to manage the disruption to regional economies and workers dependent on carbon-intensive industries.

We know there are parts of the economy that are going to withdraw or need to be substituted. We need to acknowledge what we know will be exiting and what opportunities we have. This will affect some areas more than others. Many carbon-intensive jobs are in regional areas, which will create challenges for these areas to generate new employment through the transition.

The BCA has previously recommended the creation of a National Regional Transition Taskforce, under the purview of the Climate Change Authority, to develop a low-carbon regional roadmap for the most affected regions — for example the Hunter Valley and the Latrobe Valley. This could also take the form of a standalone authority or ministerial taskforce reporting to National Cabinet. Regardless of the format, governments will need to rise to this challenge.

We welcome the Net Zero Economy Taskforce in the Department of the Prime Minister and Cabinet taking this work forward. We understand the Taskforce will be operating until mid-2023. We recommend that, in addition to the NRF, an ongoing body should be established to provide advice to government about the right next steps, and support overall government decision making, rather than directing funding itself. As noted above, there is already a wide array of funding and financing programs, including the NRF. What is needed is better coordination to support regional transition. The advice developed by the body should be one of the inputs the board of the NRF can use to consider any investment decisions.

A National Future Industries Council

Beyond the array of funding and financing sources, there is also a wide and varying set of priorities between layers of government. And this is further hampered with a lack of knowledge within government bureaucracies about *how* industries are grown, investment decisions are made, and research is best commercialised.

Governments need a trusted source of expert advice with this knowledge. For this reason, we recommend a National Future Industries Council be established, reporting to National Cabinet.

Akin to the National Science and Technology Council, this should be composed of experts from industry and the research community on commercialisation, industry development, and the long-term issues facing Australia's capacity to develop the industries needed for future prosperity.

By reporting to National Cabinet, the council will be able to provide consolidated advice to both federal and state and territory governments, about both the opportunities at play, as well as weaknesses that need to be addressed. A report to National Cabinet will also provide the best opportunity for governments to come together and take a coordinated approach to develop the future industries Australia will need to prosper.

The council should be asked to develop advice on the steps needed to prepare Australia's industrial base for a clean-energy future, including providing initial advice to lay the groundwork for Australia to become a clean-energy exporting superpower.

The NRF's priority areas range across a wide range of sectors. The council will need to be able draw in deep practical and strategic expertise across each of the seven areas. To this end, it should be able to second in experts who can provide the detailed advice on specific sectors. This could include drawing on or building from the expertise of the existing industry growth centres.

3.2 Priorities for investment

The NRF – once fully operational and funded – will have an investment envelope of $15 billion. This is a substantial commitment on the part of the Commonwealth and can – if wisely spent – catalyse change at scale in the economy.

However, as the discussion paper notes, much of the funding has already been apportioned across the seven priority areas. It is not yet clear how the NRF will – within the funding envelopes already set out – allocate funding that sits across multiple priorities.

The discussion paper also outlines other policy priorities the NRF Board should have regard to when making investment decisions. While these are all outcomes businesses support, they should not override or distort the fundamental objective of the NRF: to support, diversify and transform Australia's industry and economy.

Without a clear sense of mission and further targeting, there is a real risk that financing will be sprinkled across the economy and not lead to the step-change that is needed.

The NRF needs to make and support the investments that will grow and operate at scale. For each investment, the NRF Board needs to take a clear-eyed view whether Australia's domestic market is sufficient to sustain an industry over the long-term. The investments that will have the greatest impact and create the most secure, sustainable and highly paid jobs will be those that deliver things that are wanted by global markets. This might mean, for example, considering where Australia can foster new industries that are part of joint industrial bases with key allies and partners (e.g. through AUKUS).

For this reason, the NRF must include as part of its investment mandate a clear expectation that part of its funding will be directed towards the development of a select number of internationally significant industry precincts. These must focus the work of businesses, government, and the education system to bring together common activities into a single region.

This will mean ensuring all parties have a clear understanding of the potential for a precinct to be important in a global context. This is not just the pure number of jobs created, but also the significance it has for global trade. This means showing export potential, through access to a strategic port or airport, years of investment behind them, or demonstrated success and agglomeration.

This does not necessarily mean looking to identify and support new greenfield precincts. Substantial investments have already been made to transform substantial precincts across Australia.

The major investments in Western Sydney, for example, is based close to the new Western Sydney international airport, which will enable it to access global markets. It will also be home to major high-skill jobs hub across some of the key sectors for the NRF, like manufacturing, healthcare and agribusiness, and is connecting businesses with education and research institutions.

Similarly, the Westmead precinct in Sydney is Australia's largest health and biomedical research precinct, and is home to campuses for two universities, research institutes and medical facilities. Similarly, Lot Fourteen in Adelaide has brought together universities, industry and government into a collaborative environment focused on critical future industries like space and defence.

Similar examples can be found across Australia. But the key to success will be limiting the number of precincts that receive support: not everyone can be a winner.

3.3 Enabling future investments

To successfully diversify and transform Australia's economy, we need to get the macroeconomic settings right. If we fail to do this, Australia will continue to fall behind our competitors. This is already happening.[2] This isn't because Australia is doing worse. It's because Australia is being overtaken by other countries doing better. We remain stationary.

To get us back into the fast lane, Australia needs:

- a competitive tax system
- well planned infrastructure, coordinated between state and federal governments
- a high-quality skills and education system
- a productive workplace relations system
- access to affordable and reliable energy, and
- effective and efficient regulation.

These macroeconomic settings need to be set to deliver both jobs that take advantage of a decarbonising global economy and ensure businesses can take advantage of new technologies.

Australia's microeconomic settings also have a key role to play. This means having the right regulation, standards, and approvals in place. Bridging the financing gaps through the NRF (and other financing

[2] Eg https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/

mechanisms) will only address one piece of the puzzle: government needs to consider the totality of the policy environment and its culture of engagement with industry.

For example, the government has indicated that medical science will be one of the seven priority areas for the NRF. But if Australia is to get the most from this sector, then Australia needs to consider the entire ecosystem. This runs from approvals for medical devices and medicines, to clinical trials, through to mutual recognition. An inability to fix this issue doesn't just cost Australians jobs and prosperity. It also affects the lives and wellbeing of all citizens: for example, on average across 20 OECD countries, over 60 per cent of medicines become available to patients within six months. In Australia, it is just 22 per cent.

Fundamentally, government needs to clearly understand and articulate why it is a co-investor. Government needs to closely consider whether the macroeconomic settings are discouraging investment. The NRF provides an opportunity to look at where market failures may be occurring as an inadvertent result of government settings.

For this reason, we recommend that – where an investment is made by the NRF – the government evaluate the macroeconomic that have meant that private capital was not filling the gap.

3.3.1 Skills

Australia faces skills challenges across each of the streams identified under the NRF. We are going to face a race not only in Australia, but also from global competition for the people who have the right skills and experience. While the NRF is not directly seeking to address this, the investments it makes and priorities it sets need to be backed in with measures that ensure there are the skills needed to deliver. Government needs to work with industry to ensure the skilled workforce is available to implement the projects it wants to support.

For clean energy, for example, the International Energy Agency estimates 14 million new clean energy roles will be needed by 2030.[3] While this will more than offset the jobs lost in fossil fuel productions, there will not be a direct transfer between the two sectors, with many of the new jobs requiring new skills and expertise.[4]

The Australian government and businesses will need to understand and anticipate what skills will be needed and appropriately train and recruit to meet these needs and support areas where carbon-intensive industries may decline. Government, industry, and communities must work together to manage the disruption to regional economies and workers dependent on carbon-intensive industries.

Similarly, we know that strong growth is expected for Australians with advanced manufacturing and design skills.[5] This reflects an existing trend for the manufacturing sector: there has been a greater focus on pre-and post-manufacturing activity, such as research and development, design, sales and after-sales service.[6]

This is the case even in 'new' jobs. The government has set a goal of 1.2 million tech jobs by 2030. This will mean creating an additional 340,000 tech-related jobs. These jobs will not just be people sitting on beanbags in start-ups – most 'tech' workers are employed in Australia's existing businesses, enabling them to meet the changing demands of their customers, such as through buying things they want online. But it will require a concerted effort to get from where we are today.

To ensure Australia takes a sensible and coordinated approach to filling these skills needs, we recommend that JSA be tasked with developing workforce strategies for each of the NRF priority streams, with extensive consultation with industry and education institutions, and with contemplating of the role of migration. These should sit alongside the co-investment plans being developed by government with industry, to provide a holistic approach to industry development led by the National Future Industries Council.

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[3] New clean energy roles include renewables, energy efficiency, low-carbon fuels, nuclear power, battery storage and carbon capture, utilisation and storage; IEA 'Net Zero by 2050: A Roadmap for the Global Energy Sector' (2021)
[4] IRENA, 'Renewable Energy and Jobs Annual Review 2021' (2021)
[5] https://www.nationalskillscommission.gov.au/sites/default/files/2022-03/2021%20State%20of%20Australia%27s%20Skills_0.pdf p121.
[6] https://www.nationalskillscommission.gov.au/sites/default/files/2022-03/2021%20State%20of%20Australia%27s%20Skills_0.pdf p36.

3.3.2 Research commercialisation

Australia has a proud history of creating new innovations: from photovoltaic solar panels to the cochlear implant.

But we need to get better at commercialising and scaling up. Despite our early success with developing the fundamental technology underpinning solar panels and Australians' enthusiasm for adopting these technologies (with the highest level of solar photovoltaic capacity per person of any country in the world[7]) China now makes 80 per cent of the world's solar panels. Australia missed out its chance to be at the leading edge of technology that will be fundamental to a transition to a net-zero economy.

The NRF is an opportunity to seize the opportunity in new areas, like quantum, hydrogen, and battery technologies.

But capturing the potential gains is not just a matter of funding. Enabling and encouraging businesses to work with the research community, including universities, to drive collaborative research needs a change in culture and attitude both in government and for businesses and the research community.

It needs strong leadership and a coherent strategy driven by senior ministers at all levels of government.

This will deliver the pipeline of new projects the NRF can invest in in future years.

To this end, we recommend that our proposed National Future Industries Council be tasked with delivering to National Cabinet a new whole-of-nation strategy for research commercialisation. This should consider matters beyond funding, such as (but not limited to) how a culture of collaboration can be encouraged, the role of standards settings and regulatory approvals, and how merger and acquisition settings can encourage innovation.

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[7] 2021 IGR, https://treasury.gov.au/sites/default/files/2021-06/p2021_182464.pdf