2023-24 PRE-BUDGET SUBMISSION

8 February 2023

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AUSTRALIAN INVESTMENT COUNCIL

The voice of private capital

About the Australian Investment Council

The Australian Investment Council (**the Council**) is the peak body for private capital in Australia and has 200+ members who work to build strong businesses that support our communities, create new employment opportunities, and grow our nation's economy.

Our members comprise the leading domestic and international private capital firms operating in Australia, and span private equity, venture capital, private credit, family offices, superannuation and sovereign wealth funds.

Private capital invests into a wide range of businesses across every sector of the Australian economy from early-stage to fast growth, turnaround and those requiring expansion capital. These are businesses that provide services such as healthcare, education and hospitality and are at the forefront of new industries such as aerospace, agriculture, manufacturing, decarbonisaton and climate change, financial services and consumer goods.

The Council's members directly or indirectly employ close to 500,000 people in Australia and support entrepreneurship and local capability by investing in Australian industries and businesses. Over time, fund managers have invested capital from a wide variety of domestic and offshore institutional investors to support the growth of thousands of high-potential Australian businesses. In addition to providing equity capital, private capital fund managers provide those businesses with a mix of strategic support, mentoring and networking to help them unlock growth opportunities in domestic and international markets, which underpins the creation of new jobs across all sectors of the economy and boosts economic growth.

Private capital makes a significant contribution to the Australian economy and accounts for almost three per cent of Australia's GDP. Economic analysis confirms that one in nine[1] new Australian jobs are created by private capital-backed Australian businesses, which reinforces the important job-creating role that private capital investment can play across all sectors of the economy.

The Council represents private capital on policy issues that support investment into high-growth potential Australian businesses covering the themes of maintaining a steady and reliable flow of domestic and foreign investment capital; building and retaining a world class talent pool; harnessing and empowering innovation to support the national interest; and addressing the challenges of climate change to realise the opportunities of a net zero world.

Statistics on Private Capital

Community	Australian Investment Council members support more than 850 businesses of varying sizes businesses across every sector of the economy that provide products and services to meet community need.
Economy	Australian-based private equity and venture capital fund managers have close to $A50 billion in assets under management and contribute approximately three per cent of GDP through the investments they make into businesses from early stage to fast-growth and turnaround.
Employment	Around 500 000 full-time jobs are supported directly or indirectly through private capital investment in Australia.

[1] Private equity: Growth and Innovation, Deloitte Access Economics, April 2018

Contents

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Overview

Australia's longstanding status as a sophisticated economy of global standing is, in part, the result of way in which domestic and foreign capital - financial and human - have worked together to establish new industries and grow existing ones. Australia has long been a net importer of both financial capital and people and policy makers have put in place settings to foster the nation as a desirable destination for investment and migration.

Those policy settings have enabled private capital investment across the entire economy. Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based private equity and venture capital assets under management are almost $A50 billion with an additional $A10 billion in equity. Companies that partner with private capital fund managers contribute close to 500,000 jobs in Australia and provide 2.6 per cent of our nation's GDP. [2]

Migration and the flow of investment capital are key levers for a strong and empowering economy. While being a net importer of capital and people has historically served the nation well, the pandemic and border closures significantly impacted migration to Australia which saw a net loss of 85,000 in FY2022. Migration levels have since turned to positive levels with a net gain of 171,000 to Australia's population in FY2022[3], still well below the 2018 net migration level 241,000.

The flow of investment capital also took an about turn in recent years indicating that Australia has not been as effective as its peers in attracting foreign capital. For the year to September 2022, there was a net capital outflow of $A20.4 billion. This turned around in the last quarter of 2022 with a net capital inflow of $A7.9 billion.[4]

However, this is a moment in which government might reflect on whether the current policy settings remain sufficient to restore needed flows of capital and people into Australia, and weigh this up against the backdrop of an intensely competitive global marketplace.

With higher inflation, increasing global competition for investment and human capital and an uncertain geopolitical environment, it is vitally important for our economic future, and Australian jobs, that businesses can quickly and efficiently access capital from domestic as well as offshore investors to make investments into existing and new businesses and industries that drive innovation and support the transition of the economy to net zero and other positive social outcomes.

Australia's strong track record in attracting private investment cannot be assumed into the future. As an example, much of the capital outflows from Australia has been directed to the United States while investment from the US has declined. In fact, Australia has fallen behind peers in attracting US investment and there is some catch-up remaining after pandemic border closures made commercial, legal and financial diligence on Australian investment opportunities more difficult.

Given the economic challenges and opportunities that need to be addressed in the near and longer terms, the Australian Investment Council has identified four priority policy areas for the upcoming Federal Budget which are detailed in this submission. Within each of these priority areas, the Council has made some recommendations that

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[2] Funding a Brighter Future, EY 2021
[3] Overseas Migration, Australian Bureau of Statistics, 16 December 2022
[4] Reserve Bank of Australia

would support private capital making its contribution to Australia's economic prosperity. The four priority areas identified are:

- Ensuring Australia remains a destination of choice for investment capital in a globally competitive market
- Attracting, retaining and building talent
- Harnessing and empowering innovation and entrepreneurship to support the national interest
- Working towards net zero.

The Council anticipates that around the world, private capital will increasingly be called upon to meet areas of unmet community need, and to partner with public capital to do so. The priority areas above reflect what our members see as enablers of attracting and retaining that capital in Australia, so that it can continue to: empower innovation and entrepreneurship; support the growth of thousands of businesses and invest in the ongoing development of a highly capable labour market.

Executive summary

As economies around the world – including Australia – continue to face uncertainty and the scale of unmet community need continues to expand, the role that private capital can, will, and will need to play in supporting businesses, communities and talent will also continue to grow.

At the same time, Australia is an entrepreneurial nation, and has the potential to become even more so: small to medium enterprises contribute more than 50 per cent of Australia's GDP[5]. These businesses require private capital to deploy into talent, product and service development, and technologies that enhance existing industries and will propel emerging industries into the mainstream.

The Australian Investment Council is committed to ensuring that Australia and Australian businesses can continue to access the private capital required to address challenges and realise opportunities into the long-term. We meet this commitment by advocating for policy reforms that lead to:

1. The type of **stable and competitive investment framework that makes Australia a destination of choice for domestic and international capital.** In a global market in which all economies face growing need and limited public capital, there is intensifying competition for private capital. Private capital is not homogenous: the requirements for investment into start-ups and early-stage businesses differ from growth and later-stage businesses, and these differ from large-scale infrastructure and real asset investment. While there are common requirements across all of these investment types, there are also differences.

2. **Industries being recognised as investment classes** such that they attract the injections of high-quality domestic and international capital required to: realise the potential of Australian innovation and ingenuity; meet community need; support national priorities; establish strong market positions in a global marketplace; and contribute to the attraction and retention of a high-quality domestic talent pool.

[5] Hanson, S: SMEs key to driving growth in Australia (CSIRO, 27 June 2022)

3. **Delivering returns for investors including Australian superannuation funds** (which invest for the benefit of their members). Strong returns have a regenerative effect: a pipeline of high-quality investments delivering strong returns contributes to sustained supply of investment capital to Australia.

In achieving these goals, the private capital invested and managed by our members supports outcomes that are in the national interest: sustained economic and employment growth; improved market competition; supporting communities and meeting areas of unmet need; and the development of new industries and skill bases that help future-proof the domestic economy.

Four key priorities for the 2023-24 Federal Budget

The Council has identified and made recommendations for four priority areas for the 2023-2024 Federal Budget. These recommendations relate to how Government may catalyse private capital investment. For ease of use, we have provided an appendix that sorts recommendation by Government portfolio.

Priority 1: Ensure Australia remains a destination of choice for investment capital in a globally competitive market

While Australia has a $A3.3[6] trillion superannuation pool[7] that is world-class as well as a substantial pool of high net-worth capital, not all of this capital is available for direct investment into new and growth businesses, emerging technologies, and new industries. Further, much of that capital will be deployed in larger economies outside of Australia.

To meet rising community demand for products and services, grow industries of national priority or competitive advantage, and support entrepreneurship and talent, Australia must attract and retain both domestic and international capital. Half of private investment capital in Australia is sourced from offshore, and the Council anticipates this will continue to be a reality of Australia's investment mix into the long-term.

As with trade, investment is globally competitive and Australia is required to compete against other nations for international and, increasingly, domestic investment capital. There are many attributes that cement Australia's status as a desirable destination for capital: a resilient economy, relatively stable legal, regulatory and governance frameworks over the long-term, the rule of law, world-class research institutions and a high-quality talent pool. In keeping with practices internationally, there does however remain a need for policy settings that specifically incentivise private capital investment in Australian businesses.

Key recommendations:

- Signal that Australia is open for businesses by introducing fast-track approvals for trusted and regular customers of the Foreign Investment Review Board (FIRB).
- A$2 million for an independent review on the current foreign investment fee structure to assess the extent to which the fees are globally competitive.
- Introduce a full or partial fee rebate for unsuccessful bidders in competitive foreign investment processes to reflect the actual cost of engaging with the relevant underbidding party.

[6] APRA: Quarterly superannuation performance statistics, September 2022 (released 22 November 2022)

- Review and refine the outstanding technical and interpretative issues in the Early-Stage Venture Capital Limited Partnerships (ESVCLP) and Venture Capital Limited Partnerships (VCLP) regimes be adopted.

- Align the investment thresholds for ESVCLPs and VCLPs with deal sizes and valuations in today's market by increasing these thresholds to from $A10 to $A100 million and $A250 to $A500 million respectively and apply an inflation adjustment mechanism such at the CPI to keep the benchmarks relevant.

Priority 2: Attract, retain and build skills and capabilities for Australia's future growth
As the global competition for skills and talent continues to intensify, the Council advocates for policies that contribute to a thriving economy where Australia is a world leader in skills, talent and capabilities underpinned by a modern, agile education framework and adaptable skills that are supported by a flexible migration system that addresses immediate workforce shortages.

Australia's economy relies on a dependable and steady flow of foreign human capital and skilled migration to drive economic growth and job creation. It is therefore vitally important for the economy and Australian jobs, that businesses are able to quickly and efficiently access human capital and skills from domestic as well as offshore sources.

Key recommendations:

- $A40 million over four years for the introduction of a skills and workforce package that includes the doubling of the Global Talent Scheme, federal funding that establishes STEM skills into the Australian school curriculum and amplifying programs that provide visa extensions to foreign students upon graduation.

- Provide Jobs and Skills Australia with adequate funding to map skills that can be translated from the tertiary education level, migrants with qualifications from offshore who are not currently working within their fields of expertise and older workers wanting to re-enter the workforce or redeploy their skills to fast-track skills development for industries and regions where skills shortages are most in demand.

- Allocate a portion of visas with work rights to identified skill and labour shortages and provide flexibility for portability so the visas can be transferred to other employers and/or geographic locations.

Priority 3: Harness and empower innovation and entrepreneurship to support the national interest
The productivity-enhancing impact of a vibrant innovation and technology sector can extend across almost all existing industries while strong domestic innovation and technology skills can support and develop new sectors, such as critical manufacturing capabilities.

The Council supports policies that facilitate the Australia's development as a nimble, diversified nation that supports private markets, innovation and entrepreneurship through access to capital and talent who build businesses that actively support communities and economic growth.

Key recommendations:

- Fast-track the commitment outlined in the ***Statement of Principles for Australian Innovation Precincts Report*** recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

- Introduce a simpler direct additional tax credit to enable Australian companies to retool by investing in software and other digital capabilities to transform their businesses and digitise their core business activities. This tax credit could be capped to investments of up to $A100,000 per year for small and medium businesses and limited to investment in new technology and skills.

- Invest in further NBN upgrades of premises from Fibre to the Curb (**FTTC**) and Hybrid Fibre Coaxial (**HFC**) to Fibre to the premises (**FTTP**) as more people work from home and where flexible working arrangements will become the norm.

Priority 4: Work towards net zero

As outlined in the 2020 Intergenerational Report, the likely physical effects of the transition to a lower carbon emissions economy will mean that some sectors will need to adjust to falling demand for some exports while new opportunities will be created in other sectors.

In many respects, these factors will be outside of Australia's sovereign ability to control, and ultimately these costs will be passed on to Australian consumers and other businesses. There are a number of areas where Australia has a comparative advantage, such as in solar and wind energy, and in regenerative farming transformation, and can be a world-leader in the export of clean-tech solutions that will underwrite the global shift towards more sustainable economies.

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

Key recommendations:

- Establish an office within the Australian Public Service for investors in, and developers of, net zero projects and technologies to navigate and prioritise government approvals at state and federal levels. Consider whether such an office could be successfully established in the Major Projects Facilitation Office.

- Establish a working group in Treasury to engage with the full range of private capital types to better understand the different risk-reward profiles and policy levers required to catalyse a more diverse range of private capital. The Council would be happy to work with Treasury to facilitate this group.

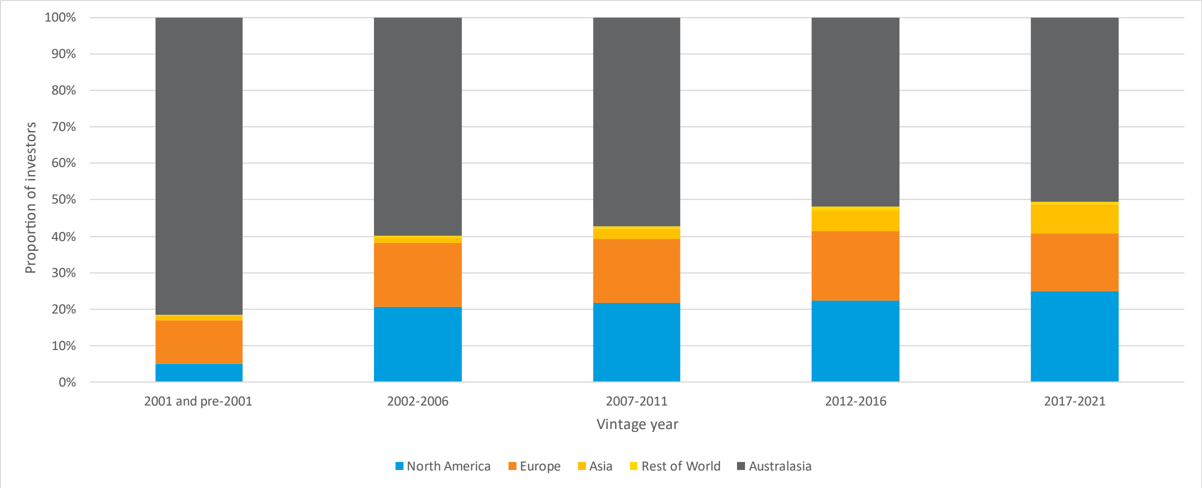
- Map the Australian Government net zero ecosystem such that investors, industry and other stakeholders have a whole of government view of all the relevant public sector departments, agencies and other bodies. This map should work across all types of investment that will be required to achieve net zero and can provide clarity about how to partner with government where required.

1. Ensuring Australia remains a destination of choice for domestic and international investment capital in a globally competitive market

While Australia has a $A3.3 trillion superannuation pool[8] that is world-class as well as a substantial pool of high net-worth capital, not all of this capital is available for direct investment into new and growth businesses, emerging technologies, and new industries.

To meet community demand for products and services, grow industries of national priority or competitive advantage, and support entrepreneurship and talent, Australia must attract and retain both domestic and international capital. Half of investment into private capital funds in Australia is sourced from offshore (Figure 1), up from 18 per cent in 2017, and the Council anticipates this will continue to be a reality of Australia's investment mix into the long-term.

Figure 1: Foreign funding in Australian private capital funds by vintage year, 2017-2022[9]



As with trade, investment is globally competitive and Australia is required to compete against other nations for international and, increasingly, domestic investment capital. For a relatively small nation, Australian 'punches above its weight' and there are many attributes that cement Australia's status as a desirable destination for capital: a resilient economy, relatively stable legal, regulatory and governance frameworks over the long-term, the rule of law, world-class research institutions and a high-quality talent pool.

However, Australia's standing means it is competing head-to-head with more mature jurisdictions such as the United States, United Kingdom and Canada which have more established track records in fundraising, larger and more mature capital markets, and larger populations and economies. It is also competing with economies such as Singapore that specifically target private capital investment.

Consequently, there remains a need for policy settings that target private capital investment in Australian businesses, and to review these settings periodically to ensure they are keeping pace with international developments.

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[8] APRA: Quarterly superannuation performance statistics, September 2022 (released 22 November 2022)
[9] Preqin & Australian Investment Council Yearbook, May 2022

The Council is committed to working constructively with government and industry to make Australia a destination of choice for investment capital in a globally competitive market.to make Australia a priority destination for investment with policy settings that make it easier to do business. The recommendations we propose below are adjustments to existing programs and frameworks, rather than introducing new programs.

Recommendation 1
Align the investment thresholds for Early-Stage Venture Capital Limited Partnerships (ESVCLPs) and Venture Capital Limited Partnerships (VCLPs) with deal sizes and valuations in today's market by increasing these thresholds to $A100 million and $A500 million respectively and apply an inflation adjustment mechanism such at the CPI to keep the benchmarks relevant.

Recommendation 2
Resolve longstanding technical and interpretative uncertainties in the ESVCLP and VCLP regimes by establishing a working group comprising representatives from Treasury, the Department of Industry, Science and Resources (DISR) and the private capital industry to recommend resolutions that can be progressed through the legislative and regulatory process.

Recommendation 3
Signal that Australia is open for businesses by introducing fast-track approvals for trusted and regular customers of the Foreign Investment Review Board (FIRB).

Recommendation 4
Commit $A2 million for an independent review on the current foreign investment fee structure to assess the extent to which the fees are globally competitive.

Recommendation 5
Introduce a full or partial fee rebate for unsuccessful bidders in competitive foreign investment processes to reflect the actual cost of engaging with the relevant underbidding party.

Venture Capital Limited Partnerships (VCLPs) and Early-Stage Venture Capital Limited Partnerships (ESVCLPs)

VCLPs and ESVCLPs play a pivotal role in raising domestic and foreign capital and supporting the growth of Australia's innovation and growth ecosystem. They are an evolution of pooled development funds (which were introduced in 1992 in recognition of the need for long-term, patient capital to support SMEs) and enable limited partnership (LP) structures which are internationally recognised and understood, making raising funds from offshore sources more effective.

VCLPs and ESVCLPs were introduced into Australia in 2002 and 2007 respectively, and changes to these programs were made effective on 1 July 2016 as part of the National Innovation and Science Agenda (NISA) reforms. Most of the changes were aimed at addressing early-stage investment, which continued to be the subject of perceived market failure, because of their increased risk and poor financial performance in the preceding decade and half. At the time, these changes were strongly supported by the private capital industry.

Since their introduction, VCLPs and ESVCLPs have attracted $A28.23 billion in committed capital and supported investment into 2,351 businesses[10] according to analysis by EY, 10 FTE jobs are created for every investment made through the ESVCLP and VCLP programs.[11] While this may be seen by some as successful outcomes, the Council believe these programs could deliver greater benefits with some updating.

Modernising the asset value threshold for VCLPs and ESVCLPs

The legislative limits on investments made by individual VCLPs and ESVCLPs of $A250 million and $A50 million respectively have not been updated since these programs were introduced. That is, they have not been updated in more than 20 and 15 years respectively. In the intervening period, the private capital sector has matured and asset values of businesses needing private capital investment have increased substantially. The consequences of outdated thresholds are more complex and cumbersome structures to facilitate investment which can discourage investment.

The Council recommends the Government consider increasing these thresholds upwards to $A500 million and $A100 million respectively and to introduce an inflation adjustment mechanism, such as CPI, to keep these benchmarks relevant. We recognise that increasing the threshold expands the flow-through tax benefits available to foreign investors. We would argue that the benefits of investing in early-stage and growth businesses and keeping those businesses in Australia outweigh this cost.

Clarifying technical and interpretative issues

When the 2016 VCLP and ESVCLP changes were enacted, there was broad industry support for the principles underpinning those changes. However, in implementing the changes, there were more than 20 technical and interpretive issues that arose and remain unresolved. The consequences of these issues remaining unresolved include: a lack of clarity, certainty and consistency in the rules; and inefficiencies in operating VCLPs and ESVCLPs.

Providing clarity and certainty on the framework for VCLPs and ESVCLPs and making them competitive with other jurisdictions will be attractive to investors considering medium and long-term investments into Australian businesses across a range of new and emerging sectors of the economy.

The Council recommends the Government consider establishing a working group comprising representatives from Treasury, DISR and the private capital industry to recommend resolutions that are in accordance with policy intent and are operable. The Council would welcome working with the Government on such a group.

Foreign investment framework

The Council recognises the importance of governance processes to ensure that foreign capital is appropriately invested in Australia. We also recognise foreign investment regimes are commonplace in foreign jurisdictions. Foreign investment approvals are generally required for direct investment and for funds deploying a mix of domestic and Australian capital.

Over time, the foreign investment regulatory framework has become more complex and fees for Foreign Investment Review Board (FIRB) applications have escalated. Importantly, investors have raised concerns around the uncompetitive fee structure for foreign investors in comparison with other comparable jurisdictions. For example,

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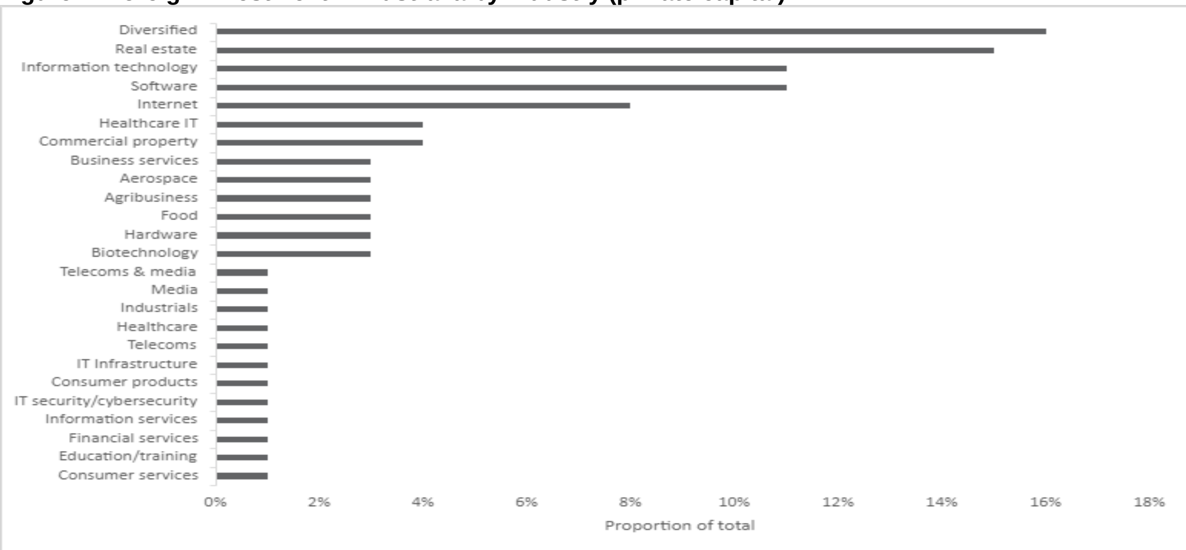
[10] Venture Capital Dashboard FY2021/22, Department of Industry, Science Energy and Resources
[11] An overview of the impact of the ESVCLP and VCLP investments, EY, September 2021

jurisdictions such as Canada do not charge a fee, New Zealand charges a low fixed fee, and some other jurisdictions charge fees in subsequent bolt-on or down-stream acquisitions.

Given Australia's reliance on foreign capital to invest across the economy (Figure 2), and the likelihood that this reliance will continue to increase, it is essential that Australia remains globally competitive across key indicators. Efficiency and cost of the foreign investment regulatory regime is one key indicator.

Figure 2: Foreign investment in Australia by industry (private capital)[12]



From an efficiency standpoint, the Council recommends widening the measures that streamline the approvals process, particularly for those investors that frequently make FIRB applications. One specific measure could be a fast-tracked approvals process for investors who have already received FIRB approval. Such a measure should not undermine the approvals required for specific investments, as the fast-tracking is for approvals specific to the investor.

To better understand how Australia compares with international peers, the Council also recommends that an independent review of FIRB fee structures be initiated in the near future to assess the extent to which current fees remain globally competitive with comparable jurisdictions. Ensuring that Australia is globally competitive on the costs of doing business is a view shared across industry including the Business Council of Australia, Minerals Council of Australia and the National Farmers' Federation.

Often FIRB applications are made during a competitive transaction process, resulting in more than one applicant for FIRB approval for the same asset. These investors make FIRB approvals before they know the outcome of the competitive process for reasons such as providing the vendor with certainty of being able to complete the transaction and to reduce delays between entering into an agreement and financial close. The consequence is that an investor may have incurred substantial FIRB application costs even though they may not be the successful bidder.

[12] Ibid

To add to Australia’s competitive edge in attracting foreign investment and to encourage the partnering of domestic and foreign capital, the Council recommends that unsuccessful bidders in competitive investment processes be given a fee rebate, less costs already incurred by Treasury.

2. Attracting, developing and retaining the talent, skills and capabilities needed for Australia’s long-term growth

Australia is an attractive destination for investment capital, in part because of the quality of the available talent pool. For generations, this pool has comprised locally educated and developed talent, migrants engaged in the workforce who have chosen to make Australia their permanent home, and short-term migrants who have particular skills and expertise.

The acute shortage of labour and skills in Australia has been pronounced since the COVID-19 pandemic but had also existed in certain sectors prior to 2020. For example: the number of major infrastructure and construction projects led to a significant shortage of suitably qualified talent such as project managers; increasing regulatory and compliance burdens in financial services led to higher demand for risk management professionals; and the ongoing digitalisation of the economy led to elevated demand for technology skills across disciplines such as cybersecurity, data analytics and artificial intelligence.

The pandemic has served to widen the shortage of labour and skills across almost every sector of the economy and has further highlighted the need to ensure that education and migration policy levers are working in tandem with one another, so that Australia’s labour and skills needs can be met in the immediate and longer terms. There is also merit in better understanding whether there are skills and talent already in Australia that are being unutilised or underutilised due to factors such as visa restrictions or recognition of foreign qualifications.

Policy responses need to take into account that widespread labour and skills shortages are an international phenomenon, and governments around the world are considering their policy settings to ensure their jurisdiction is the most attractive for certain types of skills and labour. Responses also need to take into account that notwithstanding Australia’s desirable attributes, its distance from many jurisdictions may be a disincentive for many potential migrants, particularly in the years immediately after pandemic-driven travel restrictions. Pathways to permanent residency and amplifying Australia’s efforts in attracting skills and talent are measures that may assist. The Council believes that Jobs and Skills Australia could be well placed to take a whole-of-government view of the required policy levers.

As a priority, the Council recommends that the Government consider doubling the resourcing for offshore marketing of the national Global Talent Scheme, which provides a streamlined visa pathway for highly skilled professionals to work and live permanently in Australia. The program has successfully attracted postgraduate students with skills not otherwise available locally and has encouraged some diaspora to return to Australia.

The Council also recommends that the Government extends visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages within priority industries. This would add another dimension to Australia’s competitive advantage in international education and tap into the talent and skills that the foreign student cohort provide.

Over the longer term, Australia must rely on creating its own skilled workforce to avoid the zero-sum game that is the global war for talent. As such, the Council recommends that the Government fund the development of an integrated Australian school curriculum for STEM from primary school all the way to tertiary education. This may necessitate collaboration with state and territory governments; however it would increase the quality, consistency and availability of STEM courses for students at all levels of education.

In additional to the programs already in place, there is a substantial opportunity to redeploy the skills of Australia's current workforce so they are relevant for the future economy. One area that has been overlooked is for recent retirees or older workers who may have built significant experience and skills through their working careers and would like to continue contributing to the workforce. One private capital-backed company, Forte, is working with governments around the world to upskill unemployed workers by matching skills to job demand. The company recently signed an agreement with the South Australian Government to help redeploy people into the workforce.

Recommendation 6
$A40 million over four years for the introduction of a skills and workforce package that includes the doubling of the Global Talent Scheme, federal funding that establishes STEM skills into the Australian school curriculum and amplifying programs that provide visa extensions to foreign students upon graduation.

Recommendation 7
Provide Jobs and Skills Australia with funding to map skills that can be translated from the tertiary education level, migrants with qualifications from offshore who are not currently working within their fields of expertise and older workers wanting to re-enter the workforce or redeploy their skills to fast-track skills development for industries and regions where skills shortages are most in demand.

Recommendation 8
Allocate a portion of visas with work rights to identified skill and labour shortages and provide flexibility for portability so the visas can be transferred to other employers and/or geographic locations.

3. Harnessing and empowering innovation and entrepreneurship to support the national interest

The high proportion of Australia's GDP attributable to small and medium enterprises (more than 50 per cent) is indicative of a willingness to take on business risk and entrepreneurship that should be fostered through investment and policy settings. These businesses are active across the economy, including in new and emerging industries characterised by innovation. Innovation is not the exclusive domain of these new and emerging industries: in the 2021 financial year, more than half of all businesses reported they were innovation active[13]

However, since the mid-2000s, Australia has suffered from a slowdown in productivity growth, lagging behind other advanced economies[14], compromising Australia's economic prosperity and expectations of standards of living. The Council supports policies that contribute to a dynamic, flexible and diversified Australian economy, and one that empowers innovation and entrepreneurship.

[13] Australian Bureau of Statistics (2022), *Innovation in Australian Business,* at URL: Innovation in Australian Business, 2020-21 financial year | Australian Bureau of Statistics (abs.gov.au)
[14] Federal Treasury (2022), *Overview: Understanding productivity in Australia and the global slowdown,* October, at URL: https://treasury.gov.au/sites/default/files/2022-10/p2022-325290-overview.pdf

Fostering innovation and digitalisation

The productivity-enhancing impacts of a vibrant innovation and technology sector can extend across almost all existing industries and support the development of new sectors, such as critical manufacturing capabilities.

Australia has an opportunity to enhance productivity and become more competitive on the world stage by prioritising industries where we already are – or could be – world leaders, and 'going narrow and deep' in developing these industries, the infrastructure and the skills to support their growth. Most of these elements can be achieved by focussing on a small but targeted range of policy reforms.

This can be further enhanced through aligning manufacturing with science and research efforts in areas where Australia is best placed to excel, such as: biomedical technology and therapeutics, as well as FinTech, to support the commercialisation of good ideas, and to improve access to export markets. This points to building a strong foundation to enhance our domestic capability.

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

Productivity will also be enhanced if businesses are fast-tacked in transitioning to a digital economy. This could be achieved by providing businesses with incentives to improve their digital capabilities and to increase digital skills through education and training programs. For example, tax credits could be introduced for Australian SME companies to retool by investing in software and other digital capabilities to transform their businesses and digitise their core business activities.

Recommendation 9

Fast-track the commitment outlined in the Statement of Principles for Australian Innovation Precincts Report recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

Recommendation 10

Consider the introduction of a simpler direct additional tax credit to enable Australian companies to retool by investing in software and other digital capabilities to transform their businesses and digitise their core.

Recommendation 11

Invest in further NBN upgrades of premises from FTTC and HFC to FTTP as more people work from home and where flexible working arrangements will become the norm, consistent with the Federal Government's pre-election commitment to ensure an additional 2.5 million homes are connected to the NBN.

4. Addressing the challenges of climate change and realising the opportunities of a net zero world

External pressures such recovery from the pandemic, geopolitical instability, and inflationary pressures have the potential to disrupt plans to transition to net zero. This is a global risk and Australia is not immune. Nevertheless, the Council agrees with the OECD's assessment that "climate change remains the principal global environmental, economic and social change of this century."[15]

It would be reasonable to anticipate that between now and 2050, there may be other as-yet-unforeseen events that also have the potential to disrupt net zero transition plans. Governments can plan for this by continuing to put in place today frameworks that enable private capital to efficiently invest in the widest possible range of projects, technologies and businesses that will contribute to a net zero society.

Globally, the implied investment opportunity to achieve net zero by 2050 is $US194 trillion, with an annual investment of $US5.5 trillion per year for the remainder of the 2020s, rising to $US7.4 trillion per year in the 2040s[16]. Two thirds of that level of investment could come from private investment[17]. Through investment, the risks of climate change can be managed but also the opportunities can be realised. Australia has the potential to be a global leader in decarbonisation, founded on the abundance of resources such as wind and solar, necessitated by carbon-intensive industries such as resources and agriculture, and powered by research and development by industry and academic institutions.

Much of the investment in decarbonisation will be in infrastructure, and this attracts a certain type of private capital, notably superannuation, pension and sovereign wealth funds. However, there is also a need for private investment in technologies and businesses that are smaller scale than a typical infrastructure project and this is where private equity and venture capital will be required. There will also be a need for non-bank debt capital. The risk-return profiles for these types of capital vary and policy levers should be flexible enough to account for the variety of capital available.

Given the enormity of the task, it is imperative that public and private sectors work together. The Federal Government can pull a number of levers to support private investment in net zero. For new and nascent markets, government can be a cornerstone investor, providing debt financiers with assurance. Government can harness its considerable buying power to lock-in supply contracts that effectively underwrite priority projects or technologies, much as power purchase agreements have underwritten wind farm projects. The Federal Government is in the unique position where it can facilitate the diverse participants required to contribute to Australia's net zero pathways: Commonwealth and state governments; industry, the investment community and community stakeholders. In all cases, government levers should take into account the different types of private capital that it is seeking to catalyse.

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[15] OECD, The Climate Action Monitor 2022, page 13; url: 43730392-en.pdf (oecd-ilibrary.org)
[16] BloombergNEF, New Energy Outlook 2022 – Executive Summary; url: New Energy Outlook 2022 | BloombergNEF | Bloomberg Finance LP (bnef.com);
[17] Climate Champions: Private investors could drive over two-thirds of the trillions investment needed to reach net zero; url: Private investors could drive over two-thirds of the trillions in investment needed to reach net zero - Climate Champions (unfccc.int)

There are already well-established agencies such as the Clean Energy Finance Corporation, ARENA and CSIRO, as well as new bodies such as the planned National Reconstruction Fund that can effectively execute Government's contribution to investing in achieving net zero.

Working in tandem with financial investment are non-financial enablers which include regulatory frameworks that will enable private and public capital to work together. From a private capital perspective, the recommendations in sections 1 and 2 of this paper would support investment in net zero projects and technologies.

A stable investment framework that provides a steady stream of investment capital for the private capital sector will be central to the transition to net-zero, noting the $A12 trillion estimated to upgrade the infrastructure to manage the clean energy transition in the decade to 2031.[18] Australia can be a world-leader in the export of clean-tech solutions that will underwrite the global shift towards more sustainable economies for future generations. The Council is supportive of policies that encourage businesses and households to invest in new technologies to support the transition to clean energy.

Recommendation 12
Establish an office within the Australian Public Service for investors in net zero projects and technologies to navigate and prioritise government approvals at state and federal levels. Consider whether such an office could be successfully established in the Major Projects Facilitation Office.

Recommendation 13
Establish a working group in Treasury to engage with the full range of private capital types to better understand the different risk-reward profiles and policy levers required to catalyse a more diverse range of private capital. The Council would be happy to work with Treasury to facilitate this group.

Recommendation 14
Map the Australian Government net zero ecosystem such that investors, industry and other stakeholders have a whole of government view of all the relevant public sector departments, agencies and other bodies. This map should work across all types of investment that will be required to achieve net zero, and can provide clarity about how to partner with government where required.

[18] *Clean energy transition will cost $12 trn:CBA*, Australian Financial Review, March 10, 2021

Appendix: Recommendations by Government Portfolio

Climate Change and Energy

Recommendation 12

Establish an office within the Australian Public Service for investors in net zero projects and technologies to navigate and prioritise government approvals at state and federal levels. Consider whether such an office could be successfully established in the Major Projects Facilitation Office.

Recommendation 14

Map the Australian Government net zero ecosystem such that investors, industry and other stakeholders have a whole of government view of all the relevant public sector departments, agencies and other bodies. This map should work across all types of investment that will be required to achieve net zero, and can provide clarity about how to partner with government where required.

Education, Skills and Training

Recommendation 6

$A40 million over four years for the introduction of a skills and workforce package that includes the doubling of the Global Talent Scheme, federal funding that establishes STEM skills into the Australian school curriculum and amplifying programs that provide visa extensions to foreign students upon graduation.

Recommendation 7

Provide Jobs and Skills Australia with funding to map skills that can be translated from the tertiary education level, migrants with qualifications from offshore who are not currently working within their fields of expertise and older workers wanting to re-enter the workforce or redeploy their skills to fast-track skills development for industries and regions where skills shortages are most in demand.

Recommendation 8 *

Allocate a portion of visas with work rights to identified skill and labour shortages and provide flexibility for portability so the visas can be transferred to other employers and/or geographic locations.

Home Affairs

Recommendation 8 *

Allocate a portion of visas with work rights to identified skill and labour shortages and provide flexibility for portability so the visas can be transferred to other employers and/or geographic locations.

Industry and Science

Recommendation 9

Fast-track the commitment outlined in the Statement of Principles for Australian Innovation Precincts Report recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

Recommendation 11

Invest in further NBN upgrades of premises from FTTC and HFC to FTTP as more people work from home and where flexible working arrangements will become the norm, consistent with the Federal Government's pre-election commitment to ensure an additional 2.5 million homes are connected to the NBN.

Treasury

Recommendation 1

Align the investment thresholds for Early-Stage Venture Capital Limited Partnerships (ESVCLPs) **and** Venture Capital Limited Partnerships (VCLPs) with deal sizes and valuations in today's market by increasing these thresholds to $A100 million and $A500 million respectively and apply an inflation adjustment mechanism such at the CPI to keep the benchmarks relevant.

Recommendation 2

Resolve longstanding technical and interpretative uncertainties in the ESVCLP and VCLP regimes by establishing a working group comprising representatives from Treasury, the Department of Industry, Science and Resources (DISR) and the private capital industry to recommend resolutions that can be progressed through the legislative and regulatory process.

Recommendation 3

Signal that Australia is open for businesses by introducing fast-track approvals for trusted and regular customers of the Foreign Investment Review Board (FIRB).

Recommendation 4

Commit $A2 million for an independent review on the current foreign investment fee structure to assess the extent to which the fees are globally competitive.

Recommendation 5

Introduce a full or partial fee rebate for unsuccessful bidders in competitive foreign investment processes to reflect the actual cost of engaging with the relevant underbidding party.

Recommendation 10

Consider the introduction of a simpler direct additional tax credit to enable Australian companies to retool by investing in software and other digital capabilities to transform their businesses and digitise their core.

Recommendation 13

Establish a working group in Treasury to engage with the full range of private capital types to better understand the different risk-reward profiles and policy levers required to catalyse a more diverse range of private capital. The Council would be happy to work with Treasury to facilitate this group.

*Joint Education Skills and Training and Home Affairs portfolios