

2022 FEDERAL ELECTION POLICY STATEMENTS

INDUSTRY POLICY

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Key Points

- Industry policy measures have the potential to help accelerate a return to real incomes growth and improve productivity performance.
- They can do so in ways that also support parallel objectives such as supply chain resilience and the development of defence and other strategic sovereign capabilities.
- Industry policy pitfalls including waste, protection, capture and the diversion of effort away from more prospective activities should be minimised by committing to principled and transparent approaches; investment in Australia's industry policy capabilities; and rigorous assessment of proposals and existing programs against clear objectives.
- Industry policy can also benefit from inter and intra-government co-ordination to reduce duplication, build complementarity and collaboration and to encourage dissemination of knowledge about industry policy across the federation.
- Ai Group recommends policies to:
 - Lift Australia's business capabilities – particularly for small and medium-sized businesses.
 - Encourage the development of high-growth and high-value industries and businesses.
 - Support business innovation.
 - Reduce the economic and social costs associated with the transition of disrupted businesses and their workforces.

Policy Approach

Judiciously designed and well-administered industry policies has the potential to help accelerate a return to real incomes growth and improve productivity performance. They can, at the same time help meet parallel objectives in ways that supports national well-being including the objectives of supply chain resilience and the development of defence and other strategic sovereign capabilities. Industry policy has a further role in facilitating orderly and less costly transitions for businesses and their workforces in the face of inevitable disruption.

While many industry policy initiatives are best delivered at the state, and sometimes local government levels, there are also important roles for federal policies and there can be advantages from national co-ordination to reduce duplication, build complementarity and collaboration and to encourage dissemination of knowledge about industry policy across the federation.

Ai Group's industry policy proposals are discussed below under four headings: lifting Australia's business capabilities; encouraging high growth industries and businesses; innovation; and industry transitions. For all these areas, benefits can be amplified by the widespread use of case studies that highlight elements of business success.

Across all these areas, Ai Group advocates for policies that will assist businesses contribute more to national growth and well-being. To support these outcomes, interventions should have clear objectives; be well-designed and well-administered; and should be subject to ongoing and transparent assessment to inform refinement and continuity. A key ingredient of success is greater investment in the development of Australia's industry policy capabilities.

This policy paper complements other Ai Group election policy papers including those on the circular economy, defence industry and energy and climate.

Lifting Australia's business capabilities

A fundamental pillar of Australia's industry policy should be lifting the capabilities of our small and medium-sized businesses by improving business awareness of best practice and assisting businesses in lifting their capabilities. This policy area is a subset of the broader skills and education agenda but applies specifically to managers, owner-managers and directors of small and medium-sized businesses.

There is already a wide range of programs at federal, state, territory and local government levels dedicated to building Australia's business capabilities. Extending the most successful programs and building greater links and coherence across the range of services has the potential to significantly improve outcomes and can assist in identifying gaps and opportunities. There is also considerable merit in the more concerted development of accessible case study material through business success stories that highlight the ingredients of successful experiences.

Building a more coherent approach to business capability development requires intra- and inter-government dialogue and cooperation. There is no need for a single national approach and indeed diversity and experimentation in different jurisdictions alongside greater communication and coordination is likely to bring significant benefits. With local governments also involved in a variety of business capability initiatives, ensuring this level of government is in the tent would be advantageous.

Business advisory initiatives

At the federal level, the Entrepreneurs' Programme plays an important role in directly assisting transformation of businesses and key sectors. The successes achieved point to the scope to scale up the program and to replicate it in complementary ways to meet business demand and economic opportunity.

The Entrepreneurs' Programme has built up considerable recognition and should retain its current branding. The program has demonstrated considerable agility to assist businesses impacted by the bushfire crisis and COVID-19 to re-build, transform, adapt and strengthen their resilience. Currently there is an additional focus on businesses affected by the floods in Queensland and NSW.

The Entrepreneurs' Programme's sectoral coverage should stay broad, with construction remaining and the energy sector definition expanded to cover cleantech. Eligibility should include businesses with prospects of successful transition to new fields and those with growth prospects within their current field.

The bDigital service available to program clients is valuable and should persist. To improve capability beyond the scope of clients of the Entrepreneurs' Programme, the government should build on bDigital with a program targeted to large numbers of SMEs to provide

information on successful adoption by businesses of digital technologies as well as advice on options for investments in digital capabilities.

Digital capabilities

Key opportunities for the modernisation of existing business practices and models are available through greater digitalisation of operations, supply chains and distribution. While there are many commendable initiatives that have been developed by various levels of governments and by different agencies, the availability of skilled personal remains a key constraint.

At the federal level, there is a range of programs with the objective of boosting industry development and growth through digital technology and capability investment. These include the Cyber Security Strategy, the Digital Economy Strategy announced in the 2021-22 Federal Budget, the 2021 AI Action Plan as well as the Blueprint and Action Plan for Critical Technologies, the Australian Data Strategy.

As is the case in all areas of industry policy, greater coordination, linking and coherence could be achieved through greater intra- and inter-government dialogue and cooperation and through further collaboration with industry and other organisations.

One such cooperative initiative is the Industry 4.0 Advanced Manufacturing Forum (I4AMF), which brings together stakeholders from industry, academia, unions and key institutions including the Advanced Manufacturing Growth Centre and the Innovative Manufacturing CRC. The I4AMF and the associated ecosystem is the sort of initiative that, if extended and/or replicated in a complementary way for other industries, would accelerate the take up of digital opportunities by a broader cross-section of Australian businesses.

Cyber Security

Digitalised businesses and increased telework redouble the importance of cyber security against evolving and growing cyber threats. Existing initiatives such as AustCyber and the Australian Cyber Security Centre (ACSC) are positive but concerns about the security of public and private digital platforms highlight the importance of improving awareness; making available information about preventative and reactive responses that businesses can adopt; simplifying the growing regulatory burdens including by reducing the myriad of cyber security standards required of businesses in their dealings with public sector agencies and other businesses. In this area, as with digitalisation in general, there are widespread skill shortages that need to be addressed.

Industry capability networks

The Industry Capability Networks operating in each state are important resources and would benefit from stronger national coordination to help generate greater value. This could include through the integration with digital platforms and consistent linking with private sector and government initiatives including their procurement policies and industry development strategies.

Encouraging specific industries and businesses

Many industry policy initiatives aimed at encouraging new areas of activity start from an identification of favoured industries including specific “industries of the future” or industries identified as having comparative advantage or strategic benefits. Measures are then put in

place to develop industry plans and approaches to the development of those industries including through grants and co-investments. This approach has had some successes with a variety of state, territory and federal initiatives including the Growth Centres and is also central to defence industry policy.

The industry-wide approach also has weaknesses. Identification of potential opportunities can be coloured by the latest fads and by the interests, experiences and expectations of those involved. Political and interest group input can divert concentration away from areas of inherent merit towards areas with lower genuine prospects. It is critical that the design and implementation of these programs meet the highest standards including in relation to the clarity of objectives; whether allocations are linked transparently to these objectives; and ongoing rigorous assessment of efficacy.

Perhaps more importantly, identifying specific industries does not fit well with the serendipitous nature of business success that derives from firm-specific advantages evident in a wide variety of, often unexpected, industries.

A more concerted and coherent focus on businesses exhibiting strong firm-specific capabilities would complement the industry-focus applied in the Growth Centres and other initiatives. Lessons can be gleaned from the approach of New Zealand Trade and Enterprise (NZTE) that encourages and supports businesses with export potential and ambition (as identifiers of high growth potential) with tailored services and links them to opportunities and capability development services available from a wide range of providers.

Innovation

Innovation can be distinguished from business improvement in general by the greater novelty of changes and the closer relationship to extensions of the frontiers of efficiency of economic activity rather than the movement of organisations towards existing frontiers.

Whether or not innovation involves the introduction of wholly novel changes to business models, processes, products, services or distribution, it inevitably builds on and extends existing practice and is most likely to be generated by new or established innovation-ready organisations and entrepreneurs with a keen awareness of leading practice.

Centres of excellence and industry networks

Organisations and networks that keep abreast of leading business practices, technologies and other developments in relevant fields can play central roles in improving innovation readiness and lifting awareness of new opportunities for Australian businesses and other organisations. Critically, they can help keep stock of existing domestic capabilities and gaps in those capabilities and assist in developing strategies to build resilience and preparedness to address disruption.

The Growth Centres, various CRCs, Centres of Excellence, some specialist industry associations and research organisations such as the CSIRO already perform these roles to different degrees. Greater focus on opening, extending and linking existing networks would disperse benefits more broadly with commensurate improvements in economy-wide payoffs. Current coverage is far from exhaustive and there are strong opportunities to create new networks and Centres of Excellence.

Gains from these initiatives can be extended if their successes are celebrated and publicised. More extensive use of accessible case study material has the potential to lift awareness of

specific opportunities. More generally, they can promote interest in collaborative approaches to innovation and help break down the cultural and information barriers to greater business-research collaboration.

There is scope also to build the capabilities of Centres of Excellence and their associated networks by ongoing critical examination and dissemination of leading practices, successes and failures.

Business / research collaboration

Lifting the frequency and quality of collaborative innovation between Australian businesses and our substantial capabilities in scientific research is essential to improve competitiveness and open new commercial opportunities. To build on recent progress a number of steps could be taken.

- Continue and expand the Innovation Connections element of the Entrepreneurs' Programme.
- Consider wider access to incentives for employment of recent STEM graduates in innovation roles.
- Promote case studies and best practices for collaboration to both business and researchers, including the benefits of cross-organisational teams and deeper 'stage zero' collaboration that starts from joint problem analysis rather than contracting out solution delivery.
- Assess the success of recent efforts to link public sector research funding to industry collaboration and real-world impact and refine the formulae and metrics if warranted in consultation with industry and the research community.

Supporting business research and development

While recognising it is only one element of innovation, Ai Group is a strong supporter of business research and development activity as a key driver of improvements in productivity and, through that, of higher incomes and commensurate benefits across the broader community.

We recognise the external benefits that can flow from business R&D by its contribution to knowledge that can be used by others without payment. These "positive externalities" or "spillovers" are benefits that accrue to others and are not captured by the individual business undertaking the R&D. Because of this, an individual business left to its own devices would finance less R&D than is socially optimal because they do not get rewarded for the full benefits flowing from the R&D activity.

Accordingly, Ai Group supports public backing for business research and development activity as a means of lifting the total amount of business R&D to more closely approximate its optimum level.

For several decades the central policy instrument supporting business R&D in Australia has been the Research and Development Tax Incentive (R&DTI). Over much of this period, business expenditure on R&D (BERD) increased markedly. In 1981-82 BERD was recorded at 0.24% of GDP. With the support of the R&DTI, BERD measured as a proportion of GDP rose, albeit in fits and starts, peaking at 1.38% of GDP in 2008-09.

Since 2008 however, under governments of various persuasions, concerns with the cost of the R&DTI have seen numerous inquiries, proposals and modifications to the incentive. Over this period of instability, the uncertainty surrounding the R&DTI and various measures to pare back its cost have seen business R&D fall back towards levels last seen in the 20th century.

While Ai Group would be open to a serious consideration of a partial replacement of the R&DTI with business research grants as has been canvassed in a variety of reviews, the success of the alternative approach would depend critically on the development of strong public sector capabilities so that grants were directed to where they would have best effect.

A strength of the R&DTI is that it is demand driven and reflects business decisions about the best direction of their R&D efforts. Replicating, let alone improving on the benefits of expenditure decisions informed by coal-face experience of individual businesses would be a major challenge in the design and implementation of a widespread system of grants.

In the meantime, Australia should commit to much-needed stability for the R&DTI as part of a strong overall backing of business innovation.

Early-stage financing

Failures in capital markets can inhibit the development of untried, innovative businesses. Well-designed policy can deliver broad economic and social benefits by deepening and broadening early-stage the flow of private capital into early-stage ventures.

Industry transitions

Industry development has been characterised as a process of 'creative destruction'. As new opportunities are developed, existing areas of activity are frequently disrupted both by direct competition and the diversion of resources to more prospective opportunities.

Such disruption is organic to a private sector economy such as Australia's in which the introduction and dissemination of technological and organisational changes are key elements of the competitive process. In addition, the continuing emergence of new centres of global economic activity, geopolitical developments and the imperative to decarbonise economic activity are amplifying disruption.

While Australia should embrace these changes and seek to capitalise on the opportunities they present, there are also clear national benefits in ameliorating the associated economic and social costs including the concentrated impacts on particular regions and the social and political risks of people's sense of being excluded from benefits.

Policy measures can be proactive and reactive. Proactive measures include equipping the existing and future workforce with strong foundations and transferable skills and improving the business capabilities that improve agility and resilience.

There is also a role for reactive policies as disruption hits or carries the threat of hitting businesses, their supply chains and employees. Targeted measures, often with a regional or sectoral focus, can be put in place to assist transitions for employees and businesses where there is a risk of concentrated impacts and limited immediate scope to participate in new opportunities.