

22 October 2022

Productivity Inquiry Secretariat
Productivity Commission
4 National Circuit
Barton ACT 2600

Lodged via the inquiry portal

Submission – Productivity Inquiry Interim Reports 3 to 6

Dear Commissioners,

As the industry association for private capital in Australia, the Australian Investment Council is pleased to provide this submission to the Productivity Commission for the third to sixth Interim Reports for the Inquiry into Australia's productivity performance. The content of this submission builds upon the Council's earlier submissions, including those in relation to Interim Reports 1 and 2.

The Council is supportive of policy initiatives and reforms that help ensure Australia's economy is competitive, productive, innovative, and able to support Australia, now, and into the future.

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

Private capital fund managers invest billions of dollars into Australian companies across every industry sector of the economy every year. Australian-based PE and VC assets under management reached \$42.2 billion in 2021¹ with an additional \$10 billion in equity capital available to be invested in the short-term. Companies that partner with private capital fund managers contribute nearly 500,000 Australian jobs and contribute approximately 3% of our nation's GDP.² The private capital industry is a significant and growing contributor to, and driver of, Australia's economic recovery and the development of Australia's industries of the future.

Given the impact of the COVID pandemic and the uncertain times that lay ahead, and as a net importer of capital, Australia's economy relies on a dependable and steady flow of foreign capital to drive economic growth and job creation. At this critical juncture, it is vitally important for our economic future, and Australian jobs, that businesses that impediments to investment into Australian businesses and job creation are addressed.

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

Yours sincerely,

Dragan Mistic
Head of Policy and Research

¹ Preqin & Australian Investment Council *Private Capital Yearbook, May 2022*

² EY independent analysis of the Economic Contribution of Private Capital to the Australian Economy – *Funding a Brighter Future, May 2022*

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Summary of Recommendations

A summary of the Australian Investment Council's recommendations to Interim Reports 3-6 are outlined below:

Interim Report 3: Innovation for the 98%

The Australian innovation economy

- Implement a review of the Research and Development Tax Incentive to consider the development of technologies critical for increasing productivity.
- Review eligibility for the R&D Tax Incentive to ensure that it meets the needs of Australia in a post COVID-19 and post mining boom context with a focus to financial benefits from innovation and technology take-up rather than the fiscal costs of the programme, taking into account what Australia's peers and competitors are doing to boost innovation in their own economies.
- Provide greater certainty on the R&D Tax Incentive by ensuring guidance material is reviewed with the view of developing single and well-understood repository of information for the Research & Development Tax Incentive.
- Introduce matching grants for R&D to boost innovation and growth in targeted areas.
- Provide increased support for corporate venture capital and innovation labs through the introduction of specific programs which attract greater public-private investment into high growth Australian companies taking risks with new and emerging technologies, with potential equity up-side for the Government.
- Implement a "gold standard" Patent Box to support the innovation economy. We note that the Government has announced in the 2022-23 Budget an extension of the regime to agricultural and clean-tech technology. However, there are many other technologies which could benefit from holding the intellectual property onshore.
- Establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.
- Continue to work with industry and government to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the *Statement of Principles for Australian Innovation Precincts Report* recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

Industry growth centres

- Continue to work with industry and State governments to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the *Statement of Principles for Australian Innovation Precincts Report* recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.

Interim Report 4: A competitive, dynamic and sustainable future

Foreign Direct Investment

- Review Australia's foreign investment framework to ensure it continues to attract investment capital amidst changes to and challenges in global financial markets.
- Provide recommendations for improving the operation of the Foreign Investment Review Board (FIRB) approval regime to improve decision turn-around times and to ensure that fee levels are globally competitive.
- Legislate a fiscally transparent globally competitive LP CIV as the major outstanding component of a globally competitive collective investment vehicle (CIV) and Asian Fund Passport regime.

- Improve existing Venture Capital Limited Partnership (VCLP) and Early-Stage Venture Capital Limited Partnership vehicles through adopting and implementing the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes as a priority.
- Retain the Significant Investment Visa program.

Remove tax inefficiencies

- Consider further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract global talent and skills to Australia.
- Reconsider previous tax reviews, including the Henry Review and Johnson Review and reconsider why matters have not been addressed.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

Enhance competition

- Adopt world best practice regulations to ensure start-up and emerging companies are not prevented from having access to digital marketplaces by digital “gatekeepers”.
- Invest in further NBN upgrades of premises from FTTC and HFC to FTTP to provide greater connectivity and improved internet accessibility in urban and regional areas to all Australians and their businesses.
- Broaden the business technology investment boost announced in the FY22 Federal Budget and extend the benefits for at least five years.
- Provide digital skills and training opportunities for small business and individuals wanting to upgrade their skills.
- Unlock the transformative power of government procurement to accelerate the growth of smaller technology-enabled businesses.
- Review laws and ministries which currently deal with the digital economy (e.g. the Attorney-General’s department, Treasury, Communications, Home Affairs, Infrastructure) to establish a dedicated Ministry and regulatory agency to deal with the digital economy and digital transformation with a single minister dealing with privacy issues, cybersecurity, competition, consumer protection and access to digital platforms and to make recommendations to ensure regulation and policy keep pace with technological developments.

Work towards net zero

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

Interim Report 5: From learning to growth

Benefit from best practice teaching

- Institute a bank of best practice educational material (eg lesson plans) so that teachers can focus on classroom teaching and identifying students with additional needs, as opposed to having to spend many hours preparing and duplicating resources across the education system providing inconsistent approaches.
- Ensure the best teachers in the field can provide impactful “lecture style” online learning on demand for all on key topics, consistent with the experience during lockdown.
- Further embed STEAM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of ‘STEAM schools’.
- Develop a national education program to fast-track STEAM skills development in secondary schools.

- Embed the curriculum with courses which provide a natural transition to university and count towards university programmes.

Supporting sustainable growth in tertiary education

- Revert to a demand driven model rather than a “cap” model to ensure students are entering their desired courses (and where they meet minimum academic skills), rather than ending up transferring multiple times between degrees that are not their first preference.
- Review the university funding model for Commonwealth Supported Places to ensure that universities are encouraged to provide courses in areas which support Australian industry and innovation rather supporting only courses in “demand” (eg business and commerce) to enable universities to continue to offer courses in the national economic interest (eg geology).
- Map skills that can be translated from a tertiary education level to fast-track technology skills development in Australia.
- Fund Digital Technologies Academies to enable people to formally retool for the digital age with STEAM skills.
- Provide digital skills and training opportunities for businesses and individuals wanting to upgrade their skills.

Interim Report 6: A more productive labour market

Improving migration pathways

- Change the skilled migration program to bring best in class expertise to Australia by considering the best practical and technical skills not just academic pure qualifications (eg PhD qualifications).
- Implement changes to the immigration system to enable businesses to identify and sponsor global talent more easily and efficiently.
- Consider additional visa categories and paths to permanent residency for global entrepreneurs.
- Introduce additional incentives for investing and working in non-capital city regions and targeted areas.
- Boost offshore marketing of Australian migration including Global Talent programs, to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.
- Extend visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy.

Submission

The Australian Investment Council shares many of the views expressed in the Productivity Commission's Interim Reports 3- 6 and has highlighted many of these challenges to Government stakeholders and the Productivity Commission in recent years.

Interim Report 3: Innovation for the 98%

Innovation investment in Australia is driven largely by the willingness of investors, such as private capital firms (and their investors), to take risks and invest in businesses that are creating new and innovative products and services, and in doing so, establishing markets that often do not even currently exist. These investments are often at the earliest stages of a new venture's life, or at key points in the life cycle of family business succession, both of which are considered to carry high risk for different reasons.

Along with the provision of capital, this funding is accompanied by highly valuable strategic and operational advice and guidance to the founders and management teams of private, early-stage and fast-growth businesses. This model of working in partnership is often the 'x-factor' or "know-how" that can help these innovative businesses to realise their ambitions in domestic and global markets. The expansion and growth of such businesses leads directly to more revenue and sales, greater levels of investment into innovative market-leading research and development, and ultimately, is the key driver behind the creation of new high-value jobs within the economy and higher contributions to income tax and other government revenue streams, including GST.

Australia can no longer afford to rest on its past successes and rely on the top five per cent of companies to provide innovation growth for our future. Transitioning and adapting business models to the highly technological and globalised marketplace supported by policies focussed the innovation economy will provide pathways for a knowledge-based economy and will create jobs for future generations.

1. Review the Research and Development Tax Incentive

Deeper investment into new technologies and innovation through Research and Development will be necessary to drive productivity and competitiveness. The Research and Development Tax Incentive (RDTI) is a critically important policy that drives large parts of Australia's innovation ecosystem. It encourages considerable investment into the development of new products and services across countless sectors of the economy, which is essential for the digital economic transition that we need to make towards a more knowledge-based high value-add market. However, definition and criteria in the RDTI are focused more on R&D for science and have not kept pace with the rapid development of new "non-scientific" technologies.

Recommendations

- Implement a review of the Research and Development Tax Incentive to consider the development of technologies critical for increasing productivity.
- Review eligibility for the R&D Tax Incentive to ensure that it meets the needs of Australia in a post COVID-19 and post mining boom context with a focus to financial benefits from innovation and technology take-up rather than the fiscal costs of the programme, taking into account what Australia's peers and competitors are doing to boost innovation in their own economies.
- Provide greater certainty on the R&D Tax Incentive by ensuring guidance material is reviewed with the view of developing single and well-understood repository of information for the Research & Development Tax Incentive.
- Introduce matching grants for R&D to boost innovation and growth in targeted areas.

2. Build a globally competitive Patent Box Regime

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

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

Recommendation

- Implement a "gold standard" Patent Box to support the innovation economy. We note that the Government has announced in the 2022-23 Budget an extension of the regime to agricultural and clean-tech technology. However, there are many other technologies which could benefit from holding the intellectual property onshore.

3. Establish a national co-investment program

Companies at the early start-up stage, as well as high-growth companies – those that have graduated from the start-up phase and are now expanding their workforce, increasing sales growth and investing in research and development – can contribute significantly to Australia's future employment and economic growth. An extension of government equity co-investment initiatives into a range of growth sectors would continue to foster local talent and nurture the growth of start-ups and scaleups. This type of co-investment could be modelled on the Biomedical Translation Fund (BTF).

Recommendation

- Establish a national co-investment program to support ongoing investment into early-stage Australian businesses and Australian entrepreneurs.

4. Corporate Venture Capital (CVC)

Australia has seen a substantial growth in the number of corporates that have CVC arms or innovation labs, marking the important role that large organisations can play in driving and nurturing Australia's innovation economy. Continuing this growth is important especially in light research by the University of Sydney which showed that Australian boards are failing to understand the importance of innovation. The study found that 57% of surveyed board members agreed that 'innovation has never been or was only an occasional board agenda item' with only 3% having science or technology expertise. An alarming 57% did not know how much their organisations spent on R&D and innovation. With R&D and innovation key drivers of economic growth, productivity and high value jobs, Australian corporates should be encouraged to do more in this area. Supporting CVC arms and innovation labs is one avenue to do this.

Recommendation

- Provide increased support for corporate venture capital and innovation labs through the introduction of specific programs which attract greater public-private investment into high growth Australian companies taking risks with new and emerging technologies, with potential equity up-side for the Government.

5. Industry growth centres

The 2022-23 Federal Budget initiative to de-risk research commercialisation in the early stages through vetting the merits of the research and providing financial support to develop proof of concepts is a step in the right direction. This would provide

incentives for investors to work with the university sector and have the flow-on benefit of attracting investment capital to good ideas which would in turn lead to a greater pipeline of new innovative businesses.

It would also provide direct benefits to universities, businesses, private investors and the economy as spin-out companies and start-ups from research organisations can grow into large, innovative companies as we have seen in other jurisdictions such as Canada and the United States.

Recommendation

- Continue to work with industry and State governments to develop closer collaboration between industry and universities to accelerate research commercialisation.
- Fast-track the commitment outlined in the *Statement of Principles for Australian Innovation Precincts Report* recommendations to create a future where innovation precincts are an integral part of the broader national innovation system by 2030.
- Introduce matching grants for R&D to boost innovation and growth in targeted areas.

Interim Report 4: A competitive, dynamic and sustainable future

6. Foreign Direct Investment

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

The Council remains supportive of a comprehensive clear, predictable and efficient foreign investment review framework. We believe that a continuous review of the foreign investment review framework needs to occur to ensure that Australia's policy settings are globally competitive and not deter foreign investment at such a critical juncture in light of global geopolitical uncertainty and economic challenges.

Further, whilst we appreciate that foreign investors need to bear the cost of approvals when they make an investment, the fees charged needs to remain globally competitive. Arguably, they should not be borne by prospective and unsuccessful bidders as they are not investors who derive any meaningful benefit from the consideration of their application and arguably only the successful bidder should bear the costs of any application.

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

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

Recommendation

- Review Australia's foreign investment framework to ensure it continues to attract investment capital amidst changes to and challenges in global financial markets.
- Provide recommendations for improving the operation of the Foreign Investment Review Board (FIRB) approval regime to improve decision turn-around times and to ensure that fee levels are globally competitive.

7. Limited Partnership Collective Investment Vehicle (LP CIV)

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

For many years, the Council has urged the Government to prioritise the development of the LP CIV regime. Despite a commitment in the May 2016 Federal Budget to the introduction of a new LP CIV from July 2018, the most recent announcements in the 2018-19, 2021-22 and 2022-23 Federal Budgets did not include any specific references to the introduction of the LP CIV regime. It is unclear whether the LP CIV will be introduced and whether the Government still has a commitment to the measure.

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

Given that partnerships are governed by state laws, the introduction of this vehicle, together with appropriate adjustments to Federal tax settings would significantly contribute Australia’s competitiveness as a financial centre.

Recommendation

- Legislate a fiscally transparent globally competitive LP CIV as the major outstanding component of a globally competitive collective investment vehicle (CIV) and Asian Fund Passport regime.

8. Venture Capital Tax Concessions

To unlock the next wave of innovation growth within Australia and continue the momentum that exists, there are some important – and straightforward – changes to improve the competitiveness of the existing Early-Stage Venture Capital Limited Partnership (ESVCLP) and Venture Capital Limited Partnership (VCLP) tax regimes.

A range of minor and uncontroversial technical amendments to these regimes has been on the government’s agenda for some time, since the last round of amendments in 2016 as part of the National Science and Innovation Agenda (NISA). The reforms implemented as part of the 2016 package were a vital component of the broad-ranging changes that helped to catalyse a new wave of investment into Australia’s innovation ecosystem.

Some of today’s success stories amongst our early-stage businesses are attributable to the 2016 reforms that helped to drive new levels of investment from VC firms and other institutional investors. When the changes were made in 2016 it was recognised that further technical amendments would be required through follow-on reforms over subsequent years. However, since the 2016 changes, material amendments remain outstanding. Those outstanding technical reforms have now become more prominent and important, because in effect, the ESVCLP and VCLP regimes are impeding the capacity for some of our successful innovative businesses to continue to grow through the injection of further investment capital from VC firms.

Investments by Australian VC funds in successful businesses such as Canva and SafetyCulture are impacted by the existing constraints – as both companies received investment at an early stage from VC firms via ESVCLP funds. The success of these businesses represents textbook examples of the ESVCLP regime doing exactly what it was intended to do – encouraging investment into companies that have the potential to succeed on a domestic and global level. As you will appreciate, these businesses – and their investors – are working within uncertain parameters which in some cases could jeopardise their prospects for growth and their capacity to remain Australian-domiciled businesses backed by predominantly

domestic investors. It is for this reason that we believe it is in Australia's economic interests that we work with the government to accelerate the finalisation of the outstanding technical amendments as urgently as possible.

Recommendation

- Improve existing Venture Capital Limited Partnership (VCLP) and Early-Stage Venture Capital Limited Partnership vehicles through adopting and implementing the outstanding technical and interpretative issues in the ESVCLP and VCLP regimes as a priority.

9. Retain the Significant Investment Visa program

The private capital industry has been a consistent and significant contributor to economic activity and job creation through the role of investment capital being deployed to support the growth and expansion of thousands of Australian businesses. The private capital industry continues to view the Significant Investor Visa (SIV) as an important part of the immigration mix to bring skills and talent to Australia as well as investment by entrepreneurs which are critical for repositioning Australia as an innovation-focused, knowledge-driven economy.

The SIV was a Labor Government initiative introduced in 2012 by The Hon Chris Bowen MP who was Minister for Immigration and Citizenship at that time. This was to increase investment capital, entrepreneurship and to make Australia more competitive with jurisdictions such as Canada, New Zealand and Singapore. The program has pulled well above its weight in contribution to the economy with 50% of every dollar invested into early stage and small and medium enterprises. This includes \$67 million into venture capital and private equity investments which have provided genuine risk equity to early and growth stage Australian companies across a vast range of industry sectors and into companies across all States and Territories and to companies that are in capital cities as well as the regions, creating thousands of jobs in urban and regional areas.

Compete with other jurisdictions

With decreasing freedoms in places like Hong Kong, many wealthy investors are looking to move overseas with their whole businesses and families. Singapore has recently introduced a similar visa, the Overseas Networks and Expertise pass, as have Thailand and Malaysia to attract wealthy families leaving Hong Kong. Many other jurisdictions around the world such as the UK and Canada are responding similarly, recognising the entrepreneurial talent and investment know-how leaving Hong Kong will need to be rehomed.

Recommendation

- Retain the Significant Investment Visa as an important component of direct investment into private capital and innovative businesses.

10. Remove tax inefficiencies

Reforming Australia's taxation regime is broadly considered to be the policy area with the greatest potential to reinvigorate Australia's economy over the long-term but which has had a very difficult political pathway. Australia's taxation system has been the subject of numerous reviews over past few decades, and many of the most significant recommendations set out in reviews remain relevant today. The most comprehensive of the recent reviews is the 2010 Australia's Future Tax System (AFTS) Review, led by former Treasury Secretary, Dr Ken Henry and the Johnson review, also from 2010 titled: "Australia as a financial centre: Building on our strengths" and aspects of the cancelled Federation White Paper from 2015. Many of the recommendations from those reviews are yet to be progressed.

Taken as a whole, the tax reform blueprint set out in that work represents a compelling, growth-enhancing plan for a staged transformation of the tax mix across federal and state-based tax regimes. While some state within Australia have adopted or indicated a review of their tax policies, a coordinated national approach has not been agreed and many inefficient and

globally uncompetitive tax practices remain. During this time, many of Australia's competitors have adopted policies which have transformed them into global financial centres, increasingly outpacing Australia, despite its historic strength in financial services.

Recommendation

- Consider further reductions to the Australian corporate and individual tax rates in line with global trends and in order to attract global talent and skills to Australia.
- Reconsider previous tax reviews, including the Henry Review and Johnson Review and reconsider why matters have not been addressed.
- Work with state and territory governments to remove inefficient taxes such as payroll tax and stamp duty.

11. Enhance competition

Consistent with detailed information provided in earlier submissions we recommend:

Recommendation

- Adopt world best practice regulations to ensure start-up and emerging companies are not prevented from having access to digital marketplaces by digital "gatekeepers".
- Invest in further NBN upgrades of premises from FTTC and HFC to FTTP to provide greater connectivity and improved internet accessibility in urban and regional areas to all Australians and their businesses.
- Broaden the business technology investment boost announced in the FY22 Federal Budget and extend the benefits for at least five years.
- Provide digital skills and training opportunities for small business and individuals wanting to upgrade their skills.
- Unlock the transformative power of government procurement to accelerate the growth of smaller technology-enabled businesses.
- Review laws and ministries which currently deal with the digital economy (e.g. the Attorney-General's department, Treasury, Communications, Home Affairs, Infrastructure) to establish a dedicated Ministry and regulatory agency to deal with the digital economy and digital transformation with a single minister dealing with privacy issues, cybersecurity, competition, consumer protection and access to digital platforms and to make recommendations to ensure regulation and policy keep pace with technological developments.

12. Work towards net zero

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

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

Recommendations

- Reduce planning red tape for businesses investing in new technologies
- Support clean energy initiatives for businesses and households

Interim Report 5: From Learning to Growth

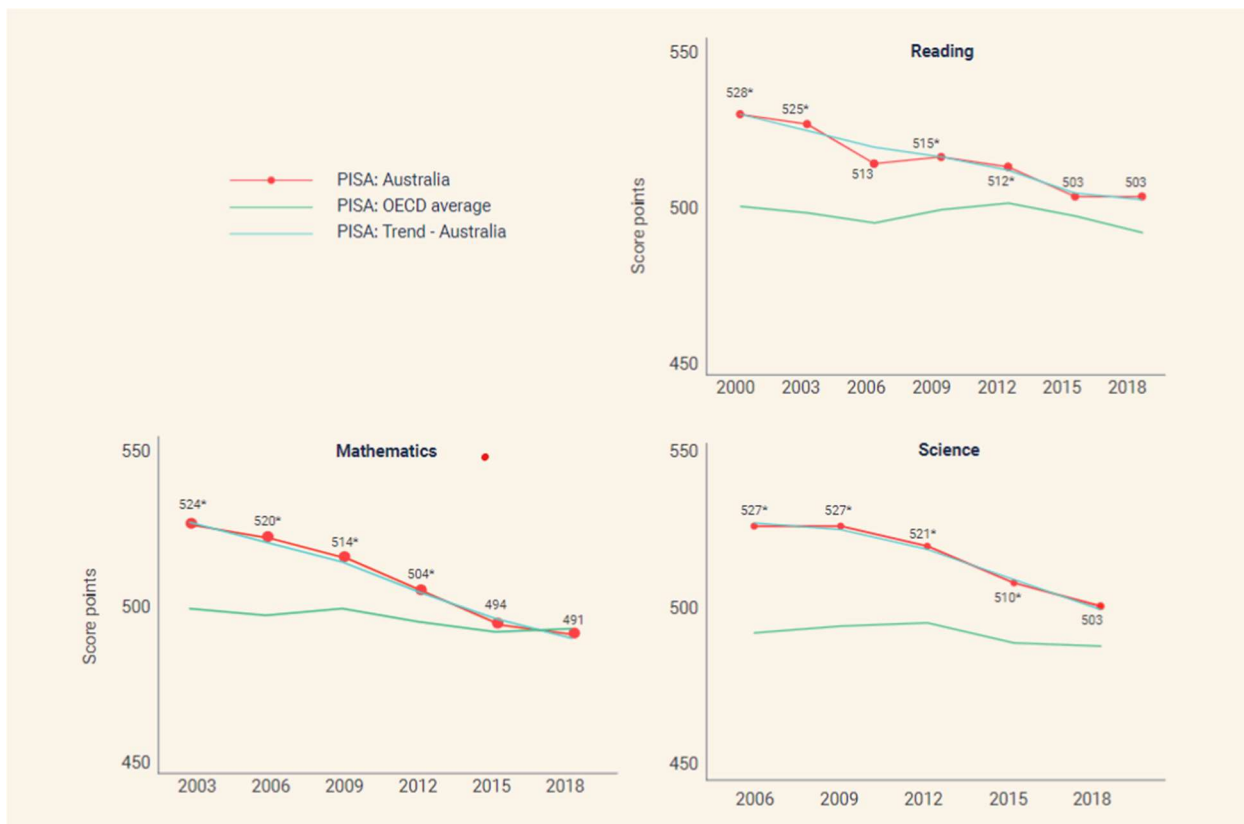
12. Benefits from best practice teaching

In addition to falling behind on productivity, Australia has continued its decline in educational outcomes (**Figure 1**). Mathematics results in Australia are now below the OECD average and an increasing number of students are failing to meet the minimum national standard across writing, reading and mathematics.

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

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

Figure 1: Trends in performance in Reading, Mathematics and Science



Source: Program for International Student Assessment (PISA) OECD, 2018

Recommendations

- Institute a bank of best practice educational material (eg lesson plans) so that teachers can focus on classroom teaching and identifying students with additional needs, as opposed to having to spend many hours preparing and duplicating resources across the education system providing inconsistent approaches.
- Ensure the best teachers in the field can provide impactful “lecture style” online learning on demand for all on key topics, consistent with the experience during lockdown.
- Further embed STEAM skills into the Australian school curriculum, from primary school years through to tertiary education and fast-track the establishment of ‘STEAM schools’.
- Develop a national education program to fast-track STEAM skills development in secondary schools.
- Embed the curriculum with courses which provide a natural transition to university and count towards university programmes.

13. Supporting sustainable growth in tertiary education

Recommendations

- Revert to a demand driven model rather than a “cap” model to ensure students are entering their desired courses (and where they meet minimum academic skills), rather than ending up transferring multiple times between degrees that are not their first preference.
- Review the university funding model for Commonwealth Supported Places to ensure that universities are encouraged to provide courses in areas which support Australian industry and innovation rather supporting only courses in “demand” (eg business and commerce) to enable universities to continue to offer courses in the national economic interest (eg geology, minerology, medicine).
- Map skills that can be translated from a tertiary education level to fast-track technology skills development in Australia.
- Fund Digital Technologies Academies to enable people to formally retool for the digital age with STEAM skills.
- Provide digital skills and training opportunities for businesses and individuals wanting to upgrade their skills.

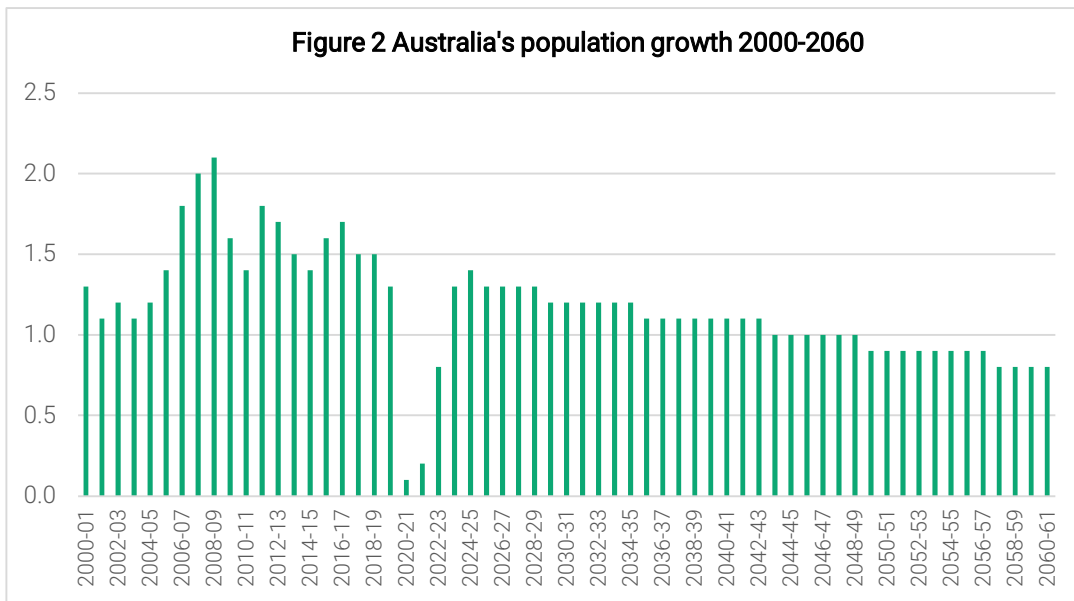
Interim Report 6: A more productive labour market

14. Improving migration pathways

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

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

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



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

15. Revamping the immigration opportunities for skills and talent to fill the gap

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

16. Leveraging capabilities of foreign students

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

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

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

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

The Government's Global Business and Talent Acquisition Taskforce (GBTAT) and tertiary education reforms are positive steps towards acquiring and generating the skills required in the future. As the pipeline of talent is grown within Australia, there are currently skills and talent gaps within the private capital sector which need to be filled as a priority. The Council's own [research](#) shows at 30 June 2022 there were 4504 job vacancies in 339 portfolio companies of Australia's most active VC funds.

Recommendations

- Change the skilled migration program to bring best in class expertise to Australia by considering the best practical and technical skills not just academic pure qualifications (eg PhD qualifications).
- Implement changes to the immigration system to enable businesses to identify and sponsor global talent more easily and efficiently.
- Consider additional visa categories and paths to permanent residency for global entrepreneurs.
- Introduce additional incentives for investing and working in non-capital city regions and targeted areas.
- Boost offshore marketing of Australian migration including Global Talent programs, to encourage some of the world's best and brightest skilled talent to move to Australia, and at the same time, encourage skilled Australians with valuable offshore experience in leading technology and innovation ecosystems to return home.
- Extend visas for foreign students who graduate from Australian universities in disciplines where there are skills shortages, allowing them to stay and work in Australia to build a pipeline for a new, knowledge-based economy