

The Australian Industry Group

# Recover, rebuild and reposition

## Post pandemic policy

August 2020



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# About Ai Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for nearly 150 years.

Ai Group is **genuinely representative** of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for ***thriving industries and a prosperous community***. We offer our membership strong advocacy and **an effective voice at all levels of government** underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the **resources and the expertise** to meet the changing needs of our membership. We provide the **practical information, advice and assistance** you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as **Australia's leading industrial advocate**. We **listen** and we **support** our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We **provide solution-driven** advice to address business opportunities and risks.

## Australian Industry Group contact

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# Contents

Executive Summary .....	5
1. Framing the challenge .....	6
2. Issues and recommendations .....	8
2.1. Industry development:.....	8
2.2. Taxation reform .....	8
2.3. Workforce development.....	9
2.4. Circular economy and waste.....	10
2.5. Climate and energy .....	11
2.6. Defence industry .....	11
2.7. Trade .....	12
2.8. Workplace health and safety (WHS) .....	13

# Executive Summary



The COVID-19 pandemic has had a massive impact on Australians, from lives to lifestyles to every aspect of our economy. Immediate crisis management is vital. But as a national association of employers, Ai Group recognises the importance of a deep consideration of how best Australia as a nation and our states, territories, regions and communities can recover, rebuild and reposition for a stronger and better economy and society over the long term.

Ai Group sees economic and social strength as going hand-in-hand. The fundamentals are building a more dynamic and higher productivity economy; achieving a more inclusive economy and society; and ensuring that Australia moves decisively to net zero emissions by 2050.

Ai Group has developed a set of Post Pandemic Policy Papers with recommendations across many fundamental areas of public policy to help achieve these ambitions:

- **Industry development:** towards greater resilience, higher productivity and more diverse opportunities;
- **Taxation** reform to support a better federation, a better economy and a fairer society;
- **Workforce development:** building opportunity and capability;
- **Circular economy and waste:** investing to build the circular economy and efficiently manage waste and recycling;
- **Climate and energy:** achieving competitive, reliable and sustainable energy and putting Australia on a clear path to net zero emissions;
- Building an efficient and high-performance **defence industry**;
- An open approach to **trade** and international investment – both inbound and outbound; and
- **Workplace health and safety:** meeting post COVID-19 challenges with shared responsibilities.

Most of these challenges were familiar before the pandemic, and in many of them Australia has not performed as well as we should for a while. But there are also new priorities more clearly highlighted by the COVID-19 experience.

Action will be needed on other fronts, too, and our papers do not cover the field. On the crucial issue of achieving better **workplace relations** to create opportunity, adaptability and fairness, Ai Group is deeply involved in the current discussions between employers, unions and the Federal Government. We look forward to a strong outcome from that process and will have more to say as it progresses.

This paper summarises the suite of Post Pandemic Policy Papers and the policy measures in each of these areas that can best support the integrated tasks of recovery, rebuilding and repositioning for the future in line with Ai Group's ambitions for a stronger and better economy and society.

A handwritten signature in black ink that reads "Innes Willox". Below the signature is a horizontal line.

Innes Willox

Chief Executive

Australian Industry Group

# 1. Framing the challenge

There is much that remains unknown and uncertain about the COVID-19 pandemic, and in Australia we are still very much managing the immediate public health crisis and its acute economic impacts on individuals, families and businesses. It is likely that our regions will cycle through tighter and looser levels of health restriction while the situation evolves, as we have seen elsewhere. As the public health situation comes under control, whether through suppression, treatments or vaccines, the priority will shift towards recovery and rebuilding.

Whenever health concerns recede, our economy will not simply go back to where it was pre-pandemic. Many of the jobs that have been lost are gone for good. Many of the businesses that have been or will be forced to shut will not return. We will need to restore viable businesses, build new ones and shrink unemployment. We need to make up ground on unemployment, and particularly youth unemployment, much faster than after previous downturns. That means not just stimulatory measures to bring on a faster return to growth, but also reforming and investing to sustain long-term growth at a higher rate and higher quality than previously expected.

Long term growth is important for many reasons, not least the greatly expanded debts incurred by all Australian governments – rightly and necessarily – while enduring, fighting and recovering from the pandemic and recession. We will need to move, with neither costly sloth nor damaging haste, to restore the strength of our public finances and the fiscal firepower to respond to future crises.

We have the good fortune of starting with distinct advantages. The COVID-19 response and the horrendous 2019-20 bushfire season have largely highlighted the quality of the expertise and the dedication to duty in our state, territory and federal public sector agencies. Despite enthusiasm for State border closures, the best of cooperative federalism has also been on show. Long may it reign!

Our economy, while wounded and in need of a steadying hand, is faring much better than many others. It has kept supplying our hospitals and health workers while adjusting its own health and safety practices to unforeseen requirements. It has kept our shops stocked; the home delivery business in full swing; and it has maintained momentum for an impressive range of our exports. While not without its difficulties, across both the public and private sectors we have pivoted swiftly to working from home.

We will need to draw on these strengths, for there is much to be done to achieve the ambitious but necessary goals set out above. Rebuilding and repositioning will require large investments in infrastructure and in businesses, but also much broader action.

Better taxation arrangements will support growth and sustain a fair and redistributive society; and a long-overdue rebalancing of fiscal responsibilities can continue the rejuvenation of our federation that the pandemic has inspired.

Maximising employment benefits for individuals, businesses and the national economy will require major action on workforce development to implement employer-aligned labour market programs and renew our education and training systems.

Workplace relations is central to the success of Ai Group's members, and we will have more to say as the current discussions between employers, unions and the Federal Government progress. However, it is clear that our workplaces, work patterns and transport systems will need to adapt to the post-COVID-19 world. Employers, employees and regulatory authorities will need to continue with the cooperative efforts that have seen workplaces able to quickly adjust to new health and safety requirements.

Thinking beyond our borders, we need to find new ways to manage the risk of disruptions to inbound and outbound supply chains; diversify our international trade and investment flows and our sources of national income; and think long and hard about the risks of more constrained immigration. The changed outlook for immigration has huge implications for many industries, especially in housing and construction which have been fuelled by high levels of permanent and temporary

migration. The skills that migrants have brought to Australia have been critical drivers of economic growth. The timing and extent of the resumption of immigration are uncertain; the longer the wait and the lower the level, the more we will need to adapt our growth path around lower net inflows.

A new phase of industry development in Australia can be supported by better management, deeper business capabilities and more innovative businesses. There are many areas of opportunity: transforming existing businesses and building new ones through digitalisation; lifting the capability and international linkages of our defence industries; and driving a resurgence in energy-intensive industries through the achievement of a new energy advantage.

Digitalised businesses and increased telework redouble the importance of cyber security against a plethora of 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 the Australian Government's current review of the National Cyber Security Strategy.

Australia's old energy advantages have evaporated in recent years, but coordinated market reform, policy development and both public and private investment can re-establish global competitiveness and put us on a path to net zero emissions by 2050.

Waste management and recycling have become urgent concerns, given the recent collapse of key international and local supply chains. Policy needs to be much sharper and more effective. A more circular economy can reduce waste, costs and inefficiencies – if technology, regulation and markets allow it to be financially sustainable.

This is a daunting set of topics for reform. Fortunately, the challenges are outweighed by the opportunities. Or at least they can be if we get the foundations right. Ai Group's Post Pandemic Policy Papers set out our views on how to lay these foundations. They are summarised below.

## 2. Issues and recommendations

### 2.1. Industry development:

Australia can put itself in a position to emerge from the COVID-19 crisis more resilient, with higher productivity growth and with a greater ability to extend opportunities for our businesses and our people.

Much of the responsibility for achieving these outcomes rests with Australia's private sector. If we can lift business investment, improve the capabilities of our managers and their workforces and increase the readiness of new and existing businesses to innovate our economy will be well-equipped to grasp domestic and global opportunities and meet future challenges.

Governments and their agencies have critical roles to play in stabilising the macroeconomy; overseeing strong and appropriately prioritised investment in physical and social infrastructure; ensuring our education and training arrangements are first class, making sure our regulatory regimes are well-considered, well run and efficient; and facilitating strong engagement in the international economy.

While getting these settings right is fundamental, governments can also support businesses' efforts to improve their operations and become more innovative. In this Industry Development policy paper we put the case for greater, more linked-up and more coherent efforts to lift business capabilities – particularly those of our small and medium-sized enterprises; further facilitation of the accelerated development of high-growth industries and businesses; and encouraging business innovation. In addition, we emphasise the important roles that governments can play in ameliorating the economic and social costs arising from industry development as existing areas of activity are disrupted in the process of creative destruction.

The COVID-19 experience and the intensification of tensions in the international economy have highlighted vulnerabilities associated with our reliance on global supply chains and has seen an increased interest in building greater resilience to mitigate against these vulnerabilities. Ai Group strongly supports the need to manage these risks and to do so in a way that does not undermine the very strong advantages of our active participation in the global economy. In some areas – including in areas related to defence and health – a greater degree of economic sovereignty makes sense. But not at any cost. We support 'smart sovereignty' over self-reliance and we see the development of strong and competitive domestic industries as fundamental to building greater resilience.

Our policy proposals in the areas of building business capabilities, facilitating the acceleration of high-growth industries and businesses, and encouraging innovation are largely a matter of building on, linking up and giving greater coherence to the wide range of existing initiatives. If these objectives can be pursued with greater inter and intra-government cooperation, all the better and we encourage all governments and the National Cabinet to get on board in a concerted effort to give greater focus on the development of Australian industries.

### 2.2. Taxation reform

Improving Australia's taxation arrangements is no small task. It is nevertheless a critical element in the post-COVID-19 response.

Unless we want to bequeath large public-sector debt burdens to subsequent generations of taxpayers and close off their options in responding to future crises, as we emerge from the COVID-19 recession we will need once again to restore our public finances.

Our current tax system is simply not up to this task and it is ill-suited to ambition of building a stronger and better economy and society.

In this policy paper we set our sights high and set out the fundamentals of the system-wide realignment of taxation that is

required if we are to encourage investment, employment creation and high incomes growth while also retaining our commitments to the range of responsibilities we entrust to the public sector and to our national redistribution and poverty-alleviation objectives.

The paper looks at the challenges across the tax system both at the federal and the state and territory levels. It proposes removing the worst taxes; lifting reliance on, and improving the efficiency of less distorting taxes; addressing the imbalances between revenue raising and spending responsibilities across the federation; and ensuring fairness so that system-wide redistribution, including through the transfer system, is retained but financed with less recourse to high rates of tax at moderate levels of personal income and relatively high rates of tax on normal returns to business investment.

We make no apology for ambition but neither do we underestimate the size of the challenge. It is not something that can be resolved overnight but that is no reason to delay starting.

This policy paper deals with structural reform of taxation arrangements for which a multi-year time frame is required. Without question taxation policy also has a role to play in assisting in the near-term recovery. With this in mind Ai Group in our Submission to the 2020-21 Commonwealth Budget [\[link\]](#) has proposed a range of stimulatory measures which can also serve as a first step in the broader modernisation of taxation arrangements. The near-term stimulus proposals include bringing forward the income tax cuts currently scheduled to commence on 1 July 2022, boosting business demand by extending business income tax relief and for direct stimulus to boost employment and household spending.

### 2.3. Workforce development

Rapid and intense education and training will be a key driver for Australia’s economic recovery as we emerge from the prevailing crisis. The way we now respond through education and training will become a major influence on the recovery of the economy and the broader community. An open, high quality education system for skills formation is seen as one of the four key pillars for a well-functioning labour market.

If Australia is to rebuild and provide access to jobs in all emerging and continuing industries, our education and training outcomes need to closely align with the opportunities in the labour market as they re-emerge. All workers must receive the training needed to allow them to undertake productive and engaged roles in order to better contribute to renewal and innovation in the workplace.

The COVID-19 crisis has occurred at a time when Australia was already suffering from a range of skills issues and its education and training system faced challenges in developing the relevant, quality skills in the timeframes required. Highly skilled jobs were increasingly recognised as important to contribute to roles emerging through digital transformation. The crisis has forced many companies to shift further into new technologies. It has highlighted and created urgency around skills broadly and provides impetus to address them. But they must now be accelerated through renewed strategies and funding measures.

Education and training must be related to business growth needs, integrated with industry strategies and include innovative approaches that better anticipate immediate-, short- and medium- term skill priorities for industry sectors. The training then available must be easy to access and relevant for individuals to gain employment in roles that are often different from the past. Strategies must be developed for all workforce age categories and must facilitate the mobility of individuals by providing recognition of achievement.

Our recommendations focus on major labour market programs supported by necessary education and training system reforms:

#### **Implement further employer-aligned labour market programs that:**

- increase wage support for new apprentices and trainees to build numbers
- include widespread youth support programs

- assess the skills of, and adapt training for, displaced workers
- scale the range of short, flexible training for emerging skill needs
- provide incentives for companies to invest in training for existing workers and work placements.

**Support renewal through education and training system action that:**

- improves funding for vocational education and training
- continues tight national leadership for skills development
- rolls out a far-reaching information and communications campaign
- incorporates applied learning principles in all education and training design
- develops higher level skills programs to meet digital economy needs
- increases Australia’s Science, Technology, Engineering and Maths (STEM) capabilities
- facilitates multi-partner industry-training initiatives
- improves foundational learning
- elevates VET programs in schools as a major pathway
- supports education and training providers to re-focus activity.

## **2.4. Circular economy and waste**

The circular economy and waste have never been bigger news, or more firmly planted on the agenda of Australian governments, than today. There is broad agreement that Australia needs to transition to a circular economy and do our part in tackling the waste crisis.

Despite that consensus, Australian recycling is challenged by collapsing foreign markets, contaminants and our comparatively small local market for recycled input material. Governments need to explore more complementary measures to build national and sustainable markets for recovered materials. The heart of the issue is that without demand for recovered materials we are unlikely to succeed in any of our waste goals.

Despite the challenge, the waste crisis presents us with significant opportunity. Innovation is the gateway for turning waste from a problem into a product and our country is home to many great innovators. We have strong capability in this regard.

Industry acknowledges that it has a role to play in lowering the costs and overcoming the challenges associated with transitioning to a circular economy. Still, a shift away from our use-and-throw model will require effort from all corners. Overcoming the waste crisis and achieving a truly circular economy takes teamwork from industry, government and the community.

Now more than ever, we need a harmonised and comprehensive ‘all hands on deck’ approach to reduce waste in the first instance; make better use of waste streams that can’t be avoided; decrease our need for landfill; reduce or eliminate environmental impacts; and achieve circularity, all while growing the economy and providing Australians with the products they need. We have seen great strides from industry, government and the community towards these goals in recent years,

but there is still much more to do.

It is a tough ask, but Australia has the talent and capability to rise to the occasion. After all, a clean, prosperous and innovative Australia is in the best interest of all of us.

## 2.5. Climate and energy

Australia has a strong national interest in successful global efforts to limit climate change; in contributing to that success by achieving net zero emissions by 2050; in safely managing the change we cannot avoid; and in increasing our competitiveness and shared prosperity in the process. We have opportunities to emerge strongly from the pandemic through reform and investment across energy and the clean economy – or the risk of a reversion to uncompetitively high energy costs if we do not manage well.

It is fundamentally important that we inform economic policy and reform across multiple portfolios by adopting a clear, agreed and national vision for successful transition to net zero emissions. Setting that vision will help the development of robust and pro-competitive strategies for gas, electricity and a broader clean economy.

For gas, Australia’s strategy should include facilitation of new supply options that make long-term sense; expansion of alternative fuels including biogas and hydrogen; a heavy focus on demand reduction through gas efficiency and electrification; and continued policy reform to promote a competitive and secure local market.

Achieving competitive, reliable and clean electricity requires that we renovate our power markets; enhance our electricity networks; de-link power prices from volatile fuel export prices; manage coal closures effectively; improve energy productivity and management across the economy; aim for globally competitive costs for energy infrastructure delivery; and close the emissions gap in electricity market designs and policies.

Building a broader clean economy demands that we develop clear and practical transition pathways across all sectors; ramp up platforms for supporting clean economy innovation and cost reduction; build a policy suite to drive mass take-up when improved technologies and practices are ready; and manage risks to our existing exports through economic hedges, a more diverse economy and fair transition and opportunity for communities, workers and supply chains.

All that is a tall order, but well within the capabilities of a talented and richly endowed country – and strongly in the interest of a nation whose future prosperity requires both success on climate and a new energy advantage.

## 2.6. Defence industry

Strong and competitive defence industries that are aligned with national defence objectives are critical to Australia’s national interest. The COVID-19 crisis has been an important test for Government, Defence and Defence industry to determine how well Australian Defence industry, supply chains and industry policy can stand up to strategic shock and overall, the Government, Defence and defence industry response has been positive.

The recently released 2020 Defence Strategic Update and 2020 Force Structure Review are welcome initiatives to help provide strategic and funding certainty for Defence and the Australian Defence industry. Ai Group looks forward to continuing to work with Government and Defence in supporting implementation of these important policies and investment plans.

While the Government and Defence responses to the COVID crisis have been effective, the pandemic has highlighted the fact that we do not have a sufficient understanding of the depth and breadth of our Defence industry supply chains, neither do we understand the source of origin of many component parts.

This would be an important time to review both the resilience of supply chains and Australian Defence industry policy. The last policy statement was released in early 2016 in the Defence Industry Policy Statement. It would be timely to review this document in light of the strategic changes post pandemic, looking at how we can best balance the concept of self-reliance with what is affordable and what makes sense from an economic perspective.

In order to progress an update to our Defence industry policy, as well as test and develop strategies for the supply chain, we recommend the following directions:

- Ensuring the 2020 Force Structure Plan takes into account ADF capabilities that could be largely built and maintained by Australian industry, which would also help drive a new era in Australia's Defence industry;
- More detailed information to support the 2020 Force Structure Plan and public release of Defence's Integrated Investment Program. It is critical that the Government release an updated public Integrated Investment Program, particularly given the last public document was released in early 2016. The Integrated Investment Program gives industry the information it needs to invest and skill its workforce to support delivery of capability for the Australian Defence Force.
- Development of an updated Australian defence industry policy reflecting our new circumstances and post COVID-19 environment, underpinned by the concept of Australian defence industry as a national strategic asset for the country.

## 2.7. Trade

Trade liberalization has made a significant contribution to the strength of the Australian economy. The commitment to remaining an open economy and advocate for globalisation has meant that Australia's GDP is 8.1% higher and real exports 34% higher than they would have been if we had remained a closed economy with barriers to imports, investment and migration.

According to DFAT one in five Australian jobs are trade-related, and according to the Foreign Investment Review Board, foreign direct investment supports one in ten jobs and 40% of exports. Trade and an open investment regime will be an essential element in rebuilding Australian industry and the economy as we emerge from the COVID-19 Great Lockdown.

However, we should not underestimate the challenges facing global businesses in dealing with this new world in which old battles remain and the World Trade Organisation (WTO) estimates that world trade could decline by between 13% and 32% in 2020.

While trade is an important component of global growth, events in the USA and UK have brought to light the negative impact of globalization and economic structural changes on segments of their respective populations. Similar demographics can also be found in Australia. If we believe in the economic and political value of an open and connected economy, we should welcome the opportunity to defend these principles and be a global advocate for the benefits of Trade. However, we also need to ensure that our companies are competing on a level playing field and be actively defending their interests when our trading partners increase their protectionist activities.

Migration has also been critical to Australian prosperity. The pandemic has necessarily constrained inward migration, but Australia would need to think long and hard before any decision to sustain lower levels over the longer term. That would require extensive changes to our growth model and much more.

Against this background, Ai Group's policy recommendations for a post-COVID-19 world are

- Use the tools and mechanisms available under various international agreements and multilateral fora to defend the economic interests of Australian companies.
- Proactively advocate for global digital trade rules that position Australian companies to be globally competitive
- Encourage and support Australian Global Value Chains
- Build the capabilities of Australian exporters to adjust to post pandemic exporting.

- Resume pre-pandemic migration levels as soon as practicable
- Implement a development agenda that improves the governance and administration capabilities of economies in our region.

## 2.8. Workplace health and safety (WHS)

On any fair view, over the past decade Australia has had great success in our mission to reduce the toll of workplace harm. We are now among the foremost nations in terms of workplace safety outcomes. Australia's experience with COVID-19 thus far has shown that our WHS laws are fit for purpose to respond to a pandemic. They were designed for broad application in a range of circumstances and with changing structures of workplace relationships.

Progress is on track or better against all three targets for worker fatalities, serious claims and musculoskeletal disorders in Australia's Australian Work Health and Safety Strategy 2012-2022.

The legislative framework that supports this mission is rooted in the Robens model – outcomes based rather than prescriptive regulation and informed by risk management and worker consultation. More recent refinements have included wider conceptions of consultation with workers and between organisations with overlapping WHS duties.

Of course, ongoing vigilance is required and there is strong scope to move to complete and make more rigorous the harmonisation of WHS across the federation.

The move towards harmonisation has been positive although the process remains incomplete and more fragile than should be the case. The incompleteness undermines its effectiveness as a symbol of joint intent, as a practical vehicle for clear messaging and as a means of reducing complexity and costs.

Organisations should be encouraged to have a current pandemic plan that can be activated if a crisis of this magnitude occurs in the future. There will be a time when physical distancing will have to be relaxed in social activities. But it may be appropriate to encourage businesses to maintain any reorganisation of work that enables, or can quickly re-enable, physical distancing associated with work activities.

The COVID-19 crisis has shown that many people are able to work productively and effectively from home. Assessments of working at home environments has shown that many people have appropriate safe workspaces that could support ongoing working from home.

With respect to mental health, the pandemic has highlighted the complexity of trying to pull apart questions of causation in the context of the variety of sources of stress both in the workplace and more broadly. An overarching framework to help organisations deal with the holistic issue of worker mental health is needed, beyond the regulatory focus on mental health issues impacted by the workplace.

