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# Submission 37 - Australian Chamber of Commerce and Industry - Productivity Review - Public inquiry

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Australian  
Chamber of Commerce  
and Industry

**WORKING FOR BUSINESS.  
WORKING FOR AUSTRALIA**  
Telephone 02 6270 8000  
Email [info@acci.asn.au](mailto:info@acci.asn.au)  
Website [www.acci.asn.au](http://www.acci.asn.au)

**CANBERRA OFFICE**  
Commerce House  
Level 3, 24 Brisbane Avenue  
Barton ACT 2600 PO BOX 6005  
Kingston ACT 2604

**MELBOURNE OFFICE**  
Level 2, 150 Collins Street  
Melbourne VIC 3000  
PO BOX 18008  
Collins Street East  
Melbourne VIC 8003

**SYDNEY OFFICE**  
Level 15, 140 Arthur Street  
North Sydney NSW 2060  
Locked Bag 938  
North Sydney NSW 2059

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## Summary of recommendations

### **Recommendation 1: Improve productivity measurement technique**

- 1.1 Review data sources, measurement technique and broader methodological issues that can significantly enhance the validity of productivity indicators
- 1.2 Improve the measurement techniques of service sector and public sector productivity

### **Recommendation 2: Build better functioning cities**

- 2.1 Develop a National Freight and Supply Chain strategy with the aim to increase supply chain efficiency, connect our cities and regional centres and support fast-growing regional hubs to be as productive as possible
- 2.2 Continue to work through COAG Energy Council and its National Energy Productivity Plan, which aims to improve Australia's energy productivity by 40% on 2015 levels by 2030
- 2.3 Establish Special Innovation Zones (SIZ) to achieve collaboration levels in line with the average of the top five OECD countries

### **Recommendation 3: Healthier people**

- 3.1 Improve the health literacy of the population by providing a consistent national health database in plain language format
- 3.2 Consider the adoption of the UK model of 'Choose and Book' to give patients better information on hospital, specialist and general practitioner services
- 3.3 Consider the adoption of the Medicare Select model that aims to support an equitable, sustainable, universal health system for the long term by dealing with cost escalation, integrating funding to better enable care of chronic disease, address the fragmentation of the health system across jurisdictions and offering consumer choice

#### **Recommendation 4: More effective public service**

- 4.1 Improve the public consultation process by implementing strategic communication and engagement methods. This may include randomised control trials and the formulation of ABS survey's designed to test the attitudes of policy ideas with the public
- 4.2 Improve public sector services including the provision of digital services by adopting the UK government's Digital Service Standard, a set of 18 criteria to help government create and run world class digital services

#### **Recommendation 5: Future skills and work**

- 5.1 The government should focus on entrepreneurial and management education, leadership development, continuous workplace training and skills formation and initiatives to engage the talent and creativity of Australia's workforce
- 5.2 Maintain a strong investment in vocational education and training across all governments, and improve the functioning of the system including a restoration of the role of industry at the centre of the system.
- 5.3 We need to implement minimum standards for literacy and numeracy nationally and push our focus towards STEM proficiency. STEM needs to permeate across all school and university curricula, and not just taught in stand-alone subjects.
- 5.4 The Government should work with key industries to identify a suite of qualifications delivered through an apprenticeship or traineeship with high employment outcomes and attach training funding and employer incentives in a program aimed at a minimum of 50,000 unemployed young Australians over two years to assist them in gaining employment and training.
- 5.5 Reduce the complexity of the workplace relations framework to enhance the ability of businesses and their staff to negotiate arrangements
- 5.6 In line with the Productivity Commissions view, there is a need to review the minimum wages objective and setting function
- 5.7 The government must put in place a nationally agreed strategy for training and retention to ensure that the career opportunities available in the visitor economy are able to be filled by skilled Australians
- 5.8 Support women's participation in the workforce by better targeting child care incentives
- 5.9 Immerse Australian entrepreneurs with other startup hubs by establishing landing pads for Australian startups

## **Recommendation 6: More efficient markets**

- 6.1 Reduce the company tax rate to the average of other advanced economies over 10 years to deliver higher wages for workers
- 6.2 Remove the duplication of state and federal regulation and compliance measures to make it easier for businesses to do business
- 6.3 Continue to embrace international engagement include trade, investment and the movement of people
- 6.4 Consider the priority areas of reform from the Harper Review including areas of government procurement, competitive neutrality, regulatory restrictions, intellectual property and the provision of human services
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## 1 Introduction

### **Recommendation 1: Improve productivity measurement technique**

1.1 Review data sources, measurement technique and broader methodological issues that can significantly enhance the validity of productivity indicators

1.2 Improve the measurement techniques of service sector and public sector productivity

The Australian Chamber of Commerce and Industry welcomes the opportunity to provide a submission to the Productivity Commission's 5 year productivity review.

The Australian Chamber considers that the Commission has encapsulated well some of the broader concerns on productivity growth experienced over the past decade. We share the concern on stalling multifactor productivity (MFP) growth both here and abroad. With the mining boom behind us we can no longer be reliant on our national resources to drive wage growth and living standards. Our future prosperity will rely more heavily on the productivity performance of multiple factors and we value the opportunity to contribute our views to this vital issue.

### **1.1 Pathway to long-term productivity growth**

Productivity is a priority issue for the Australian Chamber. The Commissions' focus on new and novel ideas is welcome however we believe existing policy proposals not yet implemented are also worth considering.

The Australian Chamber submission focuses on the definition and measurement issues and the key themes introduced by the PC workshop including better functioning cities, healthier people, more effective public service, future skills and work as well as creating more efficient markets. We incorporate new and novel ideas with existing policy proposals, including those drawn from our well received initiative 'Getting on with business.'

The paper is divided into six parts. Part 1 discusses definition and measurement limitations and implications for policy creation. Part 2 discusses issues and methods of creating better functioning cities. We endorse the Infrastructure Australia Plan and highlight the importance of investing in vital infrastructure. We also propose developing Special Innovation Zones (SIZs) within our major cities to initiate the geographic clustering of researchers, entrepreneurs and industry. Part 3 discusses the health sector including the need for greater competition and contestability in the health sector and the need to increase the health literacy of the population. In part 4 we propose creating more effective public services by improving digital services, and more thoroughly socialising policy ideas both with industry and the broader community. Part 5 discusses future skills and work. We delve into important issues regarding education and training, workplace relations, tourism and hospitality sector employment, work health and safety (WHS) issues, women in the workplace and new technology based firms (NTBFs). Part 6 we consider the need to create more efficient markets through better forms of regulation and the reduction of red tape. We also highlight trade barriers

and issues arising from preferential trade agreements. We expect that many of our members will be making submissions focusing on more specific sectoral issues.

## 1.2 Definition and measurement issues

There is widespread agreement among policy-makers in Australia that productivity is a key driver of growth, competitiveness and living standards. There is less agreement however on the sources and measurement of productivity performance, and consequently on the policies that may contribute to a sustainable improvement on productivity performance. Following a period in the 1990s and early 2000s when, by historical standards, Australia experienced unusually rapid productivity growth, trend productivity growth has slowed more recently. This is a cause of concern as it may begin to impact Australia's income growth and living standards.

The ABS defines the most comprehensive Australian measure of productivity as Multifactor productivity (MFP). It measures,

*'...the efficiency with which combined labour and capital inputs are transformed into outputs. In the long-term, it represents improvements in ways of doing things (technical progress), which is the primary source of real economic growth and higher living standards.'* (ABS, 2012)

MFP can reflect changes embodied in labour and capital (particularly improvements in the quality of capital and the skills of workers), as well as the application of new knowledge – broadly referred to as innovation. In practice, however, the residual contains a range of other factors and influences that are unrelated to quality improvement. Changes in some of these effects have little to do with long-term prosperity as they do not represent a change of productive capacity. The ABS acknowledges that,

*'In the short term, multifactor productivity also reflects unexplained factors such as cyclical variations in labour and capital utilisation, economies of scale, and measurement error'* (ABS, 2012)

This is best illustrated through the effect of the recent mining boom. The shift of labour and capital into mining and supporting industries raised Australia's income, but significantly lowered its productivity growth. Not allowing resources to move into these industries would have reduced income growth and made individuals worse off (RBA, 2012). Given this, productivity performance growth is generally an inconsistent indicator for income growth and living standards and we need to more thoroughly consider whether current productivity estimates should be the overarching indicator for improved living standards and income growth. Hence, the Australian Chamber observes caution when interpreting MFP growth figures.

Other data measurement issues include the exclusion of substantial portions of the service sector. The challenges in measuring the productivity of the services sectors are formidable. Data scientists and economists will need to pursue better measurement and understanding of the service sectors, given their increasing importance in contributing to future productivity growth

Long term comparisons of MFP are also problematic. This is based on the two market sector definitions captured in official ABS data. The 12-industry market sector definition goes back to the 1970s, however it is narrower in scope, accounting for only 67% of industry value add. The 16-



industry definition on the other hand is more broadly covered, accounting for just over 80% of industry value added, but data is only available from the late 1990s which prevents longer term analysis.

Productivity growth figures can also be distorted by 'one-off' factors such as droughts and policy induced changes such as improving water security that can increase the cost of delivery. For the water supply industry, a full 80% of the MFP decline was attributed to several factors including widespread drought conditions, stricter sewage treatment standards and increased water security supply from large investments in desalination plants. These all contributed to increased industry costs, but there was no adjustment to measured output to account for the quality improvement. The surge in utilities investment in the 2000s was also promoted by policy measures to improve security of supply (e.g. desalination plants) or quality of supply (e.g. increased telecommunications coverage). Part of the surge in investment over recent years reflects a significant catch-up that has required rapid growth in utilities' workforces after a period in the 1990s when investment and employment in the industry were falling.

MFP outcomes in the 2000s were clearly weaker than the period of strong growth in the 1990s. However, the difference between trend growth in the 2000s and the long-run average prior to the 1990s is less marked. For the market sector excluding the unique circumstances in the mining and utilities industries, the average growth in MFP of 0.4% in the 2000s is only 0.2% points lower than the average for the market sector in the period 1973-74 to 1993-94. This suggests that the 1990s was a period of exceptional growth rather than a baseline target range that we should aim to revert back to.

The broad-based slowdown in MFP growth that cannot be fully explained by the special circumstances affecting the mining and utilities industries is not large enough that the causes can be easily identified. Two significant issues that make it difficult to be definitive about the underlying drivers of change in productivity include measurement error and the result of the interaction of many fundamental and proximate factors such as technological, structural, regulatory changes, as well as cyclical variation in factor utilisation (RBA, 2012). The Australian Chamber strongly recommends a review of data availability, measurement techniques, and broader methodological issues that can significantly enhance the validity of productivity indicators.

## 2 Better functioning cities

### **Recommendation 2: Build better functioning cities**

- 2.1 Develop a National Freight and Supply Chain strategy with the aim to increase supply chain efficiency, connect our cities and regional centres and support fast-growing regional hubs to be as productive as possible
- 2.2 Continue to work through COAG Energy Council and its National Energy Productivity Plan, which aims to improve Australia's energy productivity by 40% on 2015 levels by 2030
- 2.3 Establish Special Innovation Zones (SIZ) to achieve collaboration levels in line with the average of the top five OECD countries

Australia's urban centres are growing rapidly. To create better functioning cities we need to build quality transport infrastructure. Our cities must also be sustainable and resilient to accommodate population growth and the threat of climate change. Our cities must have knowledge hubs so that researchers, entrepreneurs and industry can collaborate more closely. We need to consider what is currently working domestically and abroad and replicate that in our cities.

Infrastructure is a significant part of Australia's economy, generating 13.3% of national GDP. However, Australia's current stock of infrastructure is projected to fall well short of meeting future needs, according to Infrastructure Australia. Demand on the nation's infrastructure will increase because of increased urbanisation and population growth. This will manifest in greater congestion costs and lower productivity. Australia's population is projected to increase by 8 million, to reach 30.5 million by 2031 and modelling suggests congestion costs to the economy will top \$53 billion a year (Infrastructure Australia, 2016).

It is an ideal time to invest in infrastructure as funding costs are at record lows and governments should actively encourage increased involvement by the private sector in infrastructure design, development, operation, maintenance and financing. However, to fill the growing infrastructure gap we need careful, evidence-based investment that delivers value-for-money and properly leverages private sector funding. We need to take politics out of the infrastructure debate, and focus on boosting productivity and living standards by endorsing Infrastructure Australia's plan. More innovative financing solutions, including value capture and continued incentives for asset recycling, should also be used to help bring private investors to the table. Many infrastructure projects are conceived and funded by state and territories. As such, the Federal Government should encourage states that have not already done so, to establish their own genuinely independent infrastructure bodies.

## 2.1 Building better infrastructure and connecting our regions

Between 2011 and 2031, almost three-quarters of our population growth will occur in Sydney, Melbourne, Brisbane and Perth with our four biggest cities required to accommodate a further 5.9 million people. Without action, the cost of congestion on urban roads could rise to more than \$50 billion each year by 2031. Demand for many key urban road and rail corridors is projected to significantly exceed current capacity by 2031.

Australia's largest cities should start planning for integrated, timetable-free, *'turn up and go'* train and bus services – similar to that of New York, Singapore, London and Paris. The Australian Government should establish Infrastructure Reform Incentives, which link additional infrastructure funding to the delivery of reform outcomes.

Investment is needed to address an imbalance between the inner and outer suburbs of our cities by delivering infrastructure to the outskirts of cities enabling improved access to mass road and rail networks. Given current expenditure levels are unlikely to be sufficient to provide the infrastructure Australia needs over coming decades, a material increase in funding for infrastructure from both public and private sources is required to meet our infrastructure challenges and boost productivity. Governments should increase funding for investments in projects and technologies that make better use of existing infrastructure.

The Australian Government should play a more active role in planning for our cities. Consideration should be given to development of a new National Population Policy. Although it is recognised that these processes are fraught with argument and political difficulties, generating a shared understanding of our population needs is important in order to. This will identify the needs for infrastructure, services, housing and reforms. All government's should foster greater long-term population growth in Australia's smaller cities, in particular Adelaide, Hobart and Darwin beyond their current projections. The cities of Newcastle, Wollongong, Geelong, the Sunshine Coast and Gold Coast should be supported by governments, businesses and local communities to grow their populations and economies.

The national land freight task is expected to grow by 86 per cent between 2011 and 2031, with much of that expected to be handled by road freight. The *National Freight and Supply Chain Strategy* recommends a series of reforms and investments to enable more efficient movement of freight.

Each state and territory governments should deliver and consistently update long-term land-use plans for all Australian cities. These plans should be integrated with corresponding infrastructure plans. The amalgamation of councils provides an opportunity to enhance the effectiveness of this level of government.

### 2.1.2 Connecting cities with regional centres

Regional economies produce key exports such as minerals, energy, agriculture and tourism. In the next 15 years the growth of Asian consumer wealth will increase demand for these products. Regional areas are home to one-quarter of the population, however long distances and sparse populations make the delivery and operation of quality infrastructure costly. The efficiency and safety of our national supply chains should be a key focus in connecting our cities and regional centres.

### 2.1.3 Developing North Australia

The northern region of Australia has untapped potential, abundant resources and talented workforce. It is also Australia's closest connection with key trading markets in Asia. Over half of our sea ports are located within the northern Australia region (Ports Australia, 2014).

The North is fast developing as a trade gateway for Australia. Global supply chains are increasingly important with the share of trade in intermediate goods nearly doubling as a share of global output since the early 1990s. Key policy initiatives to drive growth in the north include the better use of land and water resources, improved governance and reduced regulatory burden, investment in infrastructure to lower costs for businesses and households, a skilled workforce that meets the growing needs of the north and enhanced air, land and sea transport links, to from and within the north.

Infrastructure Australia predicts a 165% increase in containerised trade from 2011 to 2031. The development of a National Freight and Supply Chain Strategy, was one of the high-level recommendations contained in Infrastructure Australia's 15 year plan. A report published by the Australian Logistics Council has found that national supply chains represented 8.6% of the national economy and that a 1% increase in supply chain efficiency has the potential to deliver a \$2 billion

benefit to Australia's economy. Both federal and state governments should develop long-term plans and coordinate public and private investments to support fast-growing regional hubs to be as productive as possible.

## 2.3 Sustainable and resilient cities

Extreme weather events, inadequate maintenance, accidents and cyber-attacks pose major risks to our infrastructure assets. The capacity of our infrastructure to continue operating through minor disruptions and recover quickly from major disruptions will be crucial to supporting people and businesses over coming decades.

Improving the sustainability of our infrastructure often simply means using networks more efficiently. Operators should make smarter use of transport networks by spreading peak demand or shifting passengers and freight to their most efficient mode, reducing time and costs for users. Energy and water providers should seek to improve sustainability by making better use of infrastructure, such as using technology to identify and minimise leaks and losses, to ultimately deliver lower prices for consumers. Indeed, planning for smarter cities and the associated infrastructure will become even more important as disruptive technologies such as electric vehicles and battery storage becomes more widely used. Without this being addressed, there will be severe risks to the resilience and sustainability of existing infrastructure.

There needs to be more emphasis on climate change adaptation and resilience, particularly in planning decisions and infrastructure selection and design. Reducing emissions in our electricity and transport sectors should be a key part of delivering reductions in line with international commitments, given these sectors account for half of all our greenhouse gas emissions. Governments of all levels should consult with industry and clearly communicate reforms so that the private sector can cost-effectively reduce their environmental impact over time, and help ensure energy remains competitively affordable. Governments should continue to encourage innovation and growth in renewable and lower-emission technologies. Governments should work with the private sector to develop a cohesive strategy that supports a transition to lower emissions at the lowest cost to users and taxpayers. In underlying this objective, it will be important to continue to work through COAG Energy Council and its National Energy Productivity Plan, which aims to improve Australia's energy productivity by 40% on 2015 levels by 2030. This will help deliver emissions reductions whilst saving consumers money and learning to smarter investments in the energy sector.

The resilience of networks needs to be enhanced through planning and coordination to diversify the supply of services, and to ensure that faults and failures can be isolated and resolved quickly. Regulators should ensure that responses to threats are proportionate and efficient.

## 2.4 Establish Special Innovation Zones (SIZs) and knowledge hubs

Australia ranks 116th out of 142 countries for innovation efficiency. Furthermore, Australia is ranked last out of 33 countries in the OECD for collaboration (OECD, 2013). To achieve collaboration levels in line with the average of the top five OECD countries, Australia would need to obtain a fivefold improvement in industry-research collaboration with small and medium sized

enterprises (SMEs) and sixteen fold increase with large firms (NSWBC, 2014). As a small economy, Australia has historically been more of an adaptor and user, rather than generator, of advances in technology. This implies that it is important that policy facilitates an environment in which firms can nimbly absorb technological progress from overseas.

Australia requires critical research infrastructure. Funding for research infrastructure is necessary to maintain world-class research capability and capacity for innovation in industries. Existing initiatives such as the National Collaborative Research Infrastructure Strategy (NCRIS), the Australian Synchrotron and the Square Kilometre Array (SKA) are a good starting point.

Well established tech hubs such as Silicon Valley have the ability to attract international talent and funds to start and grow new business ideas. The clustering of industry, technology and talent has allowed the Valley to flourish and become the benchmark for tech hubs. Australia must continue to support a model to encourage technology entrepreneurs to start and grow global businesses that have the potential to create more jobs and boost growth as well as make Australia a more desirable place to live, work and visit.

The City of Sydney has championed a tech startups action plan (2016) with five areas of focus including:

- Building a strong entrepreneurial culture and community – encourage more people to become technology entrepreneurs who start and develop high-growth companies
- Creating skilled and connected entrepreneurs – build a robust ecosystem in which technology entrepreneurs have the capacity and networks to launch local companies that become global companies
- Increase the startup ecosystem density – ensure startups and the organisation that support them are able to scale, and can be located close to one another so they can connect, share ideas, mentor and partner with others
- Support entrepreneurs access to funding – generate more investors and more investment in tech startups, and connect entrepreneurs with investors and businesses
- Develop technology entrepreneurs' access to markets – increase the number of consumers prior to and after the release of an entrepreneur's product or service

Sydney has an active and growing ecosystem of tech startups. Over 64% of Australia's tech startups and up to 15% of Australian workers employed in the ICT sector are located in the local government of Sydney (Sydney2030, 2016). We need to understand what is currently working successfully in Sydney or elsewhere, and amplify or replicate those programs and initiatives rather than detailing new projects without industry input. Developing SIZs in each of our capital cities will promote a clustering of networks into well-defined geographic areas. SIZs should be coupled with incentives such as rewarding collaborative R&D, co-investment funding and other tax concessions such as capital gains tax has the potential to promote.



## 3 Healthier People

### Recommendation 3: Healthier people

- 3.1 Improve the health literacy of the population by providing a consistent national health database in plain language format
- 3.2 Consider the adoption of the UK model of 'Choose and Book' to give patients better information on hospital, specialist and general practitioner services
- 3.3 Consider the adoption of the Medicare Select model that aims to support an equitable, sustainable, universal health system for the long term by dealing with cost escalation, integrating funding to better enable care of chronic disease, address the fragmentation of the health system across jurisdictions and offering consumer choice

Health and welfare are commonly associated as bearing the greatest burden on the federal budget and are projected to increase significantly in coming years. Healthcare clearly qualifies as an area for more detailed consideration based purely on its size and importance. More private and public money is spent on healthcare than on any other type of human service. Healthcare will also be the main source of expenditure growth, according to analysis in the 2015 Intergenerational Report and elsewhere. In today's dollars, health spending per person is projected to more than double from around \$2800 to around \$6500 by 2031.

Current subsidies for medical services are problematic, insofar as they are designed to provide equitable access to services at low cost, but probably end up largely increasing the incomes of service providers instead. However, the fundamental problem is that users have very limited bargaining power and lack the information and expertise to make informed choices. The inability of users to exercise choice effectively is also a major driver of the need for extensive regulatory restrictions designed to ensure minimum levels of service quality. The problems that prevent healthcare users from exercising informed choice are a combination of lack of information and lack of capacity to analyse that information effectively.

### 3.1 Improving the health literacy of the population

There are a number of ways that the information available to healthcare users can be improved. To illustrate, the UK Government introduced a new information system that enabled paperless referrals and appointment bookings whilst providing information on the quality of services provided to help patients make informed choices. 'Choose and Book' gives patients the ability to search for hospitals based on geographic distance and allows them to view estimated hospital waiting times. Additional quality information was made to patients including risk adjusted mortality rates, waiting times, infection rates, hospital activity for particular procedures and hospital accessibility, general visiting hours and parking. Both the UK and US have public web-based systems that provide information on health service providers' performance, to allow consumers to choose which provider they wish to access. This is generally backed by regular surveys of patient's experience of choice that provides information about the availability and uptake of provider choice.

In Australia, data on individual hospitals' costs are collected but not published, and there is almost no reporting on the performance of individual health professionals against cost or quality metrics. There has also been relatively slow progress to introduce national electronic health records, with voluntary uptake provisions and concerns about privacy partly responsible. The 'My health communities' website initiated by the Australian Institute of Health and Welfare provides a good starting point, however there is significant room for improvement. For instance, primary health networks constitute very large geographic areas and sample survey questions are vague.

Several issues have been raised in the quality of health information provided to the Australian population. People report that they seek information from doctors more than any other source. However, many consumers have difficulty understanding what their healthcare providers tell them. Even immediately after leaving a consultation, consumers are unable to recall between 40% and 80% of the medical information just given to them by their healthcare provider, and a significant amount of information that is recalled can be incorrect (Kessels, 2003).

The amount of health information forgotten by consumers has been shown to be directly related to the amount of information presented, the consumer's medical knowledge, anxiety level, their age and levels of health literacy. Lower levels of health literacy for instance are associated with higher use of health services and poorer health outcomes. Furthermore, providing information that is difficult to understand, overly complex, contains a lot of jargon, is in an inappropriate format, or presented in an inaccessible way creates a barrier to consumers' understanding of health information.

### **3.1 Creating a more sustainable health care system**

Creating models that empower consumers to make better use of a complex system is not easy. Australia's Medicare was developed in 1983 with the aim to support short-term, episodic care, from a single health professional. However its fee-for-service and medical-centric approach does not support the multi-disciplinary, coordinated and consumer-centred care that is now required. In particular, the Australian population is experiencing a much greater incidence of chronic and complex illness which typically requires care from multiple providers, in a number of settings and over a substantially long period. These pressures come from interplay of a rapidly ageing population, a shift in the burden of disease from acute to chronic conditions, the continuing development of new medical technologies and treatments and consumer expectations. About half of Australians have a chronic disease and approximately 20% have 2 or more. For the consumer, the mix of Commonwealth and state funding, public and private financing and delivery structures, and the divide between inpatient and out-of-hospital care, make for a highly fragmented system that is difficult to navigate to find the right care.

Current funding arrangements and financial incentives are structured around providers rather than health outcomes as funding is provided on the basis of activity, rather than on improvements in people's health. Fee-for-service payment methods have raised concerns about 'over servicing, reduced quality and safety standards, fragmented care and cost-shifting'. The fragmented and complex web of government roles in different parts of the health system also makes enduring or meaningful structural change difficult to achieve.

In Australia, some advocates for single government funder have favoured regional health authorities as the preferred middle-level which would effectively replace the role of the states. Regional health authorities would receive a population based budget for all publicly funded health care and would fund and operate services for the population with their geographic boundaries

The *Medicare select* model potentially supports a more sustainable universal health system through a greater transparency, reduction in duplication, supporting appropriate care in the most appropriate setting, competition, innovation and choice. The purpose of Medicare Select is to support an equitable, sustainable, universal health system for the long term by dealing with cost escalation, integrating funding to better enable care of chronic disease, addressing the fragmentation of the health system across jurisdictions and offering consumer choice. However there are potential risks of implementing Medicare Select without considering a phased in approach. For instance there would be significant transaction costs associated with shifting to a managed competition model that could be substantial enough to threaten the viability of the scheme. Private health insurance funds would need to significantly expand their functions to operate as plans under a managed competition model. As a result, they would either exit the market, merge with larger funds, or be confined to offering supplementary insurance. There would also be a significant consumer information challenge as choosing a health plan could be more challenging than choosing a private health insurance fund under the existing system. Also given that at least 55% of Australians are currently without private insurance, they would be faced with the important choice of choosing a fund or plan for the first time.

Government intervention in health care can be misdirected or ill-informed when information is not shared between the Commonwealth and the States and Territories. Without access to comprehensive data across the overall system, governments tend to focus on their areas of responsibility, rather than considering what might be best for the system as a whole. The lack of data in areas of the health system (other than for hospital services) also means that painting a picture of a patient's pathway through all health services they receive is not possible. The division of roles between the Commonwealth and the States and Territories has led to accountability for discharging financial responsibilities becoming a greater focus than accountability for improving people's health. Governments also tend to direct significant energy towards demonstrating how funds are spent, rather than measuring results.

## 4 More effective public service

### **Recommendation 4: More effective public service**

4.1 Improve the public consultation process by implementing strategic communication and engagement methods. This may include randomised control trials and the formulation of ABS survey's designed to test the attitudes of policy ideas with the public

4.2 Improve public sector services including the provision of digital services by adopting the UK government's Digital Services Standard, a set of 18 criteria to help government create and run world class digital services



The cornerstone of an innovative, productive and adaptable economy is the effectiveness of government and the rate at which change can be readily diffused within the economy. Government policy can play a critical role in increasing productivity in the economy by removing market distorting regulation and sharpening incentives to increase competition (Turnbull, 2014). A study conducted by the International Monetary Fund found that Australia's removal of trade tariffs and labour market reform in the 1980s and 90s lifted multifactor productivity by between 0.5% and 0.9% (Salgado, 2000).

Where we are relative to the global productivity frontier depends on domestic policy choices, the quantity and quality of our labour and capital, as well as environmental and historical factors that determine the extent to which resources are used as efficiently as technically feasible. We need to ensure that governments get underlying policy settings 'right' both on regulation and spending.

Government can also act to help close the gap between Australia and the global productivity frontier by ensuring we have well-functioning, competitive and open markets, including being open to ideas and technology from abroad and removing impediments to the flexibility, responsiveness and dynamism of firms. In some areas, Australia may be at the best practice frontier and, in this case, governments may have a role in removing any constraints that are preventing further global technological advancement.

There have been fewer economy-wide reforms over the last two decades than in the 1980s and 1990s. This can be attributed to many newly conceived reforms not being completed and because there has been less impetus for reform while the mining boom buoyed the economy. The Government should reconsider potential budget savings that are unlikely to win support from either other parties or the public. It should progress measures that don't require specific parliamentary approval, favour measures where Parliamentary approval is plausible, and build public support for important reforms (Grattan Institute, 2016).

## **4.1 Improving consultation and stakeholder engagement**

Governments are responsible for decisions that have both intended and unintended consequences on the community. Transparent and well managed public participation is essential to fully inform government policies and their translation into effective strategies, programs and projects. Most governments recognise the value the public bring to understanding problems and risks and crafting solutions that are more likely to work. In addition to the real life experience that community stakeholders can contribute to decision-making, the credibility of a decision is enhanced when it is perceived to be the product of an open and deliberative process.

Recent experience has indicated that major "surprise" policy announcements at the time of the Budget or otherwise that have not been developed through strong consultation mechanisms have not been successfully implemented. Higher education reform, medicare co-payment, backpacker tax and capping deductions for self-education expenses are just some examples where the failure to build support for change proved fatal to the execution of policy.

## 4.2 Improving online digital services

The public sector is facing increasing expectations for better services in the context of prolonged budget constraints and increasing demand in addressing complex, long-term issues that affect all Australians. Governments will need to do more with less by becoming more productive, innovative and agile to provide services. Government departments and agencies need to develop new business models and work more closely with others and adopt new technologies in order to meet emerging challenges and opportunities.

A major frustration for the business community is the time taken to navigate important information and services. Public services are fragmented and difficult to navigate. Other international jurisdictions including New Zealand the UK have initiated a partnership of government agencies working to make it easier and more efficient for business customers to deal with government. For business people, this means less effort on administration and more time to focus on growing their business.

The Digital Service Standard developed by the UK government, is a set of 18 criteria to help government create and run good digital services. All public facing transactional services must meet the standard and is used by departments and the Government Digital Service to check whether a service is good enough for public use. For example the criteria considers:

1. Understanding user needs – researching to develop a deep knowledge of who the service users are and what that means for the design of the service
2. Ongoing user research – planning for ongoing user research and usability testing to continuously seek feedback from users to improve the service
3. Understanding security and privacy issues – evaluate what user data and information the digital service will be providing or storing and address the security level, legal responsibility, privacy issues and risks associated with the service (consulting with experts where appropriate)
4. Testing the end-to-end service – be able to test the end-to-end service in an environment identical to that of the live version, including on all common browsers and devices, and using dummy accounts and a representative sample of users
5. Making a plan for being offline- make a plan for the event of the digital service being taken temporarily offline
6. Testing with the minister – test the service from beginning to end with the minister responsible for it

The UK government has also created a Government services design manual that breaks down the different phases of service design into 5 components including:

1. Discovery – a short phase, in which the service needs of users are researched, finding out what should be measured and exploring technological or policy-related constraints
2. Prototype – a short phase, which prototype solutions for your users' needs. Testing with a small group of users or stakeholders, and getting early feedback about the design of the service

3. Beta live – developing against the demands of a live environment, understanding how to build and scale while meeting user needs. Releasing a version to test in public
4. Live – work doesn't stop once the service is live. Iteratively improving the service, reacting to new needs and demands, and meeting targets set during its development
5. Retirement – even the best services may eventually reach retirement. That should be treated with the same care as went into the building and maintaining of that service

## 5 Future skills and work

### **Recommendation 5: Future skills and work**

- 5.1 The government should focus on entrepreneurial and management education, leadership development, continuous workplace training and skills formation and initiatives to engage the talent and creativity of Australia's workforce
- 5.2 Maintain a strong investment in vocational education and training across all governments, and improve the functioning of the system including a restoration of the role of industry at the centre of the system.
- 5.3 We need to implement minimum standards for literacy and numeracy nationally and push our focus towards STEM proficiency. STEM needs to permeate across all school and university curricula, and not just taught in stand-alone subjects.
- 5.4 The Government should work with key industries to identify a suite of qualifications delivered through an apprenticeship or traineeship with high employment outcomes and attach training funding and employer incentives in a program aimed at a minimum of 50,000 unemployed young Australians over two years to assist them in gaining employment and training.
- 5.5 Reduce the complexity of the workplace relations framework to enhance the ability of businesses and their staff to negotiate arrangements
- 5.6 In line with the Productivity Commissions view, there is a need to review the minimum wages objective and setting function
- 5.7 The government must put in place a nationally agreed strategy for training and retention to ensure that the career opportunities available in the visitor economy are able to be filled by skilled Australians
- 5.8 Support women's participation in the workforce by better targeting child care incentives
- 5.9 Immerse Australian entrepreneurs with other startup hubs by establishing landing pads for Australian startups

## 5.1 Education and training

Developing the skills employers and employees need for the modern workplace requires robust and effective policies. Education and training policy requires a holistic approach with respective roles and responsibilities of federal and state governments clearly identified. Duplication and overlap between jurisdictions must be addressed, and there is a strong need for an integrated plan to promote stronger industry engagement. It is essential that students leave school with the literacy and numeracy skills they need to be productive in the workplace. Students should also understand that skills in Science, Technology, Engineering and Maths (STEM) will be critical in a significant proportion of future jobs and as one of the key drivers of innovation and entrepreneurship.

Workforce skills in Australian workplaces are not being fully utilised, with research showing that up to half of employers regard their employees as over-qualified or over-skilled (Richardson 2007; Toner 2007, 2009). The under-utilisation of skills and knowledge represents a major drain on productivity. Australian businesses can increase their performance not only through the provision of new workforce skills but through better utilisation of existing skills (Green et al. 2016). In other circumstances, skills shortages are affecting the ability of major industries to recruit, train and retain new employees. This is as a result of thin training markets in critical sectors that cannot access training because of the cost of delivery. Registered training organisations (RTO) are not investing to deliver the quality education and training necessary to fill these vital skills shortages.

Skills acquisition is multifaceted and encompasses basic to higher level technical and managerial skills, where individuals acquire skills and competencies through formal education, training, work experience and other forms of informal learning (Toner 2007, 2009). There is evidence of a strong causal interrelation between the supply of higher levels of education, training and skills and increased demand for and supply of technical and organisational innovation (Green et al., 2016).

### 5.1.1 Schools

It is essential that students leave school with the literacy and numeracy skills they need to be productive in the workplace. The latest NAPLAN, PISA and TIMMS results demonstrate the decline in Australia's education performance both nationally and internationally in science, maths, reading and writing.

Without intervention, this declining performance will result in students not being adequately prepared for the workforce, undermining our nation's ability to improve productivity.

Student results in schools go beyond education funding, which has been increasing while results have been declining. All governments need to direct resources to students at risk of falling behind in literacy, numeracy and science.

State governments need to follow the lead of Western Australia and New South Wales, which have implemented minimum standards for literacy and numeracy to ensure all school leavers have the skills they need to be productive in the workplace. Minimum standards offer a systematic approach from primary school through to Year 12, targeting intervention for students at risk of falling short of the standards required in modern workplaces and expected by Australian businesses.

In addition to literacy and numeracy skills, it is widely accepted that with the emergence of new technologies, and jobs moving away from low-skilled to high-skilled, that there must be an

increased emphasis on science, technology, engineering and maths (STEM) skills and teaching. In order for all school leavers and graduates to have STEM proficiency, STEM needs to permeate across all school and university curricula, and not just taught in stand alone subjects. Teachers need to be specialist in STEM skills in order to teach them adequately, and there should be centres of excellence for teachers to build skills and share passion for both the teaching and the subject material.

### 5.1.2 Vocational education and training

Vocational Education and Training (VET) pathways, particularly apprenticeships and traineeships, have job-outcome results at around 80-90% at the end of training, compared to around 68% for those graduating from an undergraduate degree. Given these outcomes and the almost immediate productivity dividend, an increase in investment into apprenticeships and traineeships to boost commencement and completion rates would assist in boosting the nation's productivity.

The investment by all Governments in VET has decreased over recent years as has the commitment for the system to be industry-driven. This has serious consequences both in the relevance of the system to industry needs, and in the ability for the system to produce the number of skilled people required. At a bare minimum, current funding to VET must be maintained with a strong commitment needed to improve the functioning of the system to minimise the inefficiencies and inconsistencies that arise from the variability of decisions across the Federation. The National Partnership Agreement due for finalisation in 2017 provides a timely opportunity to secure commitment to reform from the jurisdictions, and should focus on achieving national apprenticeships.

### 5.1.3 Youth unemployment

Tackling youth unemployment is important to the nation's productivity by reducing welfare dependency and improving employment participation. Australia's youth unemployment rate is around 12.6 per cent, and the government needs to identify ways to reduce this. The Australian Chamber strongly support the JobActive PaTH program as one way to tackle this as it improves job readiness, however more than one solution is required for the problem. Other solutions include better informing the market through good careers advice and better information channels, making the workplace regulation system more conducive to the employment of young inexperienced people, and improving the connection that employment services has with employers. Finally, an important solution rests on the benefits of an apprenticeship. The Government should work with key industries to identify a suite of qualifications delivered through an apprenticeship or traineeship with high employment outcomes and attach training funding and employer incentives in a program aimed at a minimum of 50,000 unemployed young Australians over two years to assist them in gaining employment and training.

### 5.1.4 Higher Education

Australia's uncapped and demand-driven higher education system has led to institutions enrolling large numbers of students, causing a big hit to the Federal budget. To put a stop to the falling employment rates for graduates, we need to ensure that the skills they graduate with match the needs of the labour market.

Higher education needs to produce graduates who are ready to enter the workforce. This requires input from industry which can be achieved in part by including industry on the Higher Education Standards Panel and by higher education funding rewarding collaboration between institutions and business.

We also need to ensure students are making informed choices about which course to study. We want students to make choices based on job outcomes and the performance of institutions, not the ATAR score required to get there. Effectively, we need to ensure students enter the labour market and boost productivity as soon as possible after graduation. To do this, they need to be in study which is linked to labour market needs. Encouraging the take-up of Work Integrated Learning (WIL) in higher education institutions is key to achieving this. Most commonly, WIL involves a student placement or internship in the workplace providing students with on-the-job experience, and allows them to contextualise their studies in the workplace making them more employable upon graduation.

### 5.1.5 Child Care and Early Learning

Both child care and early childhood learning have a significant impact on productivity. The Productivity Commission's report rightly acknowledged that the policy and behaviour drivers of these two related areas are different. The public benefit of child care is the support for workforce participation, whereas early childhood learning is aimed at preparing children for a lifetime of positive learning. Early childhood learning in an institutional setting is particularly of benefit to children who are disadvantaged by not having learning experiences in their home environment.

It is unrealistic to expect the education standards required for early childhood learning should apply across all hours of childcare. The Government's child care proposals (stalled in the Senate) address some of the issues raised in the PC report and put in place a better structure than currently exists. That said, the Australian Chamber believes that the subsidies are too generous at the upper family income levels, and subsidies for those high earning households should be replaced by income contingent loans. More support for childcare and early childhood learning should be offered to disadvantaged families.

## 5.2 Workplace relations

Australia needs an adaptable, nimble workplace relations framework that reflects the modern workforce. Our current workplace relations framework is complex, inefficient and it creates disincentives to employment. Compliance costs are increased because of the complexity of the law, especially for small business. The current workplace relations system limits the ability of businesses and their staff to negotiate arrangements. The complexity of the award system and the strictures it places on employers makes it harder for businesses to hire staff.

Aspects of the current system also promote an adversarial approach and work on the assumption that negotiations that take place between employers and unions. The workplace relations system should create an environment where wages and conditions are set by workplace agreements that can be negotiated collectively or individually. The expansion of bargaining options to reflect this reality will make businesses more competitive at home and abroad, allowing all parties to share in the benefits of a growing business.



Workplace regulation is a complex web of rules and requirements that many small business owners struggle to navigate without assistance. The Fair Work Act has 950 sections, while there are 122 different modern awards. Many of these awards are prescriptive despite a recent effort to make them more accessible through streamlining. But the burden of complex awards system threatens to intensify with each union claim for further regulation and prescription.

In 2015 the Australian Chamber made comprehensive submissions to the Productivity Commission's inquiry into the workplace relations framework which were taken into consideration by the Productivity Commission in the formulation of its report. In those submissions we noted that the creation of modern awards together with their review processes has once again encouraged disputes between employer, industry and union representations triggering third party intervention by the Fair Work Commission and the ad-hoc build-up of employment regulation. Evidence of this trend can be seen in recent proceedings in relation to the four-yearly review of modern awards in which unions are seeking matters in all 122 modern awards such as:

- minimum engagement periods and greater prescription of part-time hours;
- an additional 10 days paid leave related to domestic violence;
- family friendly work arrangements' which would require an employer to accommodate part-time or reduced hours for employees returning from parental leave unless there were 'substantial countervailing business grounds' and provide a right to employees to revert to their pre-parental leave positions after two years.

Australian Chamber members have raised concerns that changes to the provisions of industry awards resulting from common claims has resulted in complexity and changes to award content that had been more suited to the needs of employers in their industries. The review processes together with the common reach of some change across the entire award system, have arrested the transition from the centralised system to a decentralised enterprise bargaining system of collective and individual agreements, underpinned by a simple safety net of minimum standards as intended by the earlier policy makers of the 1990s and 2000s.

Inflexible requirements that create a disincentive to employ or make it harder to offer more work hours at times when a business is expected to trade are of continuing concern to members. Australia's economy is in transition and the decline in income generated by sectors characterised by more 'traditional' patterns of employment has not yet been offset by equivalent growth in other sectors. Growth in the dynamic service sectors will not be met by only employing permanent employees between standard Monday to Friday business hours under a complex web of regulation. These concerns were reflected in the Australian Chamber's comprehensive submissions to the Productivity Commission's inquiry into the workplace relations framework.

Changes to our workplace relations system are needed to free up businesses to respond to the changing needs of the market and better cater for people outside the system such as the unemployed, especially unemployed youth. The regulatory framework should encourage rather than inhibit investment, growth and job creation and promote the variety of labour forms needed to allow companies maximum opportunity to hire as many people as possible. The system should enable employers and employees to work together cooperatively to negotiate arrangements that meet each other's needs so that Australia remains competitive in the global, digital marketplace.

### 5.2.1 Minimum wage setting

The labour market is complex and susceptible to several distortions including technological change, international market forces and globalisation. Furthermore, we recognise that labour supply is dynamic, diverse and prone to change over time creating difficulties for empirical analysis. A key feature of the Australian Council of Trade Union's (ACTU) argument in the 2016 submission to the FWC is the proposition that studies that fail to find an effect should be taken as evidence that there is no effect at all. There are several challenges associated with isolating the effect of minimum wage changes on employment and productivity outcomes. These include:

- Changes in the minimum wage are often one of many different changes taking place in labour markets and economies. As a consequence, it is difficult to disentangle these changes to provide a clear causal pathway even using current research data and methodologies.
- Studies assessing long term trends are particularly sensitive to the effect of economic, technological and international market forces that are hard to isolate, thus further complicating the interpretation of results.
- Income and related labour market data are “noisy” creating considerable difficulties in estimating even simple percentages such as the proportion of people on the minimum wage. Current estimates vary substantially between 4-10% of the working population.
- Changes to minimum wages are generally incremental, and can therefore be anticipated by employers, making it difficult to isolate the response because employers may have factored the wage increase into their business decisions prior to the official announcement.
- Fixed costs and the time lags naturally associated with staffing changes mean responses to minimum wage changes may be unpredictable and substantially delayed.
- The effect of changes in the minimum wage is likely to differ depending on economic circumstances, and the counterfactual market driven wage increase that would otherwise have occurred. It is this latter factor which means seeking a medium term target for the minimum wage should be rejected on first principles.

Unfortunately, research conducted on the effect of Australian wage setting is particularly problematic as minimum wages are uniformly assigned throughout all states and territories. Australian research also suffers from limited data, with a substantial portion of research concerned with estimating the size and composition of minimum wage employment and of its impact on household incomes rather than the impact of the minimum wage on employment and productivity capacity in Australia.

The Australian Chamber has expressed concern that the consideration of macro-economic data does not adequately take into account the actual conditions relevant to employers and employees at the industry and enterprise level. We have concerns that minimum wage decisions disproportionately impact particular employers and sectors of the economy and that the broad domestic economy focus risks ignoring the impact on vulnerable small and medium sized employers.

In line with the Productivity Commission's view, there is a need to review the minimum wages objective and setting function to ensure:



- the process provides a genuine safety net which is appropriately balanced;
- it adequately supports the creation of employment opportunities via a system of supported wages schemes;
- it supports employers in their efforts to provide training and employment for young people including providing appropriate minimum wages and conditions for trainees and apprentices which properly reflect their experience and work and education balance;
- it supports opportunities for young people seeking entry to the labour market;
- that the independent wage setting body is required to consider the protection of jobs and helping the unemployed to become competitive in the labour market;
- its focus is directed to the impact on employers, including small business employers, and employees as well as those seeking employment

### 5.2.2 Enhance ability of companies to retain employees

High staff turnover leads to a loss of specialist knowledge and productivity. Workplace policies that support gender equality are an important tool to retain talented employees. Research by Kaplan, Wiley and Maertz shows that employees are more likely to remain with an organisation where there is a productive diversity 'climate' as they perceive a concrete payoff to themselves by staying in an organisation they view as fair.

High staff turnover not only leads to a loss of specialist knowledge and productivity, the costs associated with hiring and training new employees can be high. Research by the Society of Human Resource Management suggests that the total costs associated with employee turnover can range between 90% and 200% of the annual salary, depending on the type of job.

### 5.2.3 The tourism and hospitality workforce

Australia's tourism industry employs nearly a million people. This accounts for approximately 8% of Australia's total employment. However, there are currently 38 000 unfilled vacancies in the sector and tourism businesses are facing substantial recruitment and retention difficulties and skills deficiencies. 51% of business report recruitment difficulties while a further 36% report retention issues. There has been a large increase in the proportion of businesses identifying skills deficiencies, with 69% reporting skills deficiencies among their staff. This has increased from 50% in 2011 and is in line with the skills shortages projected at that time. Hence, it appears that while the ability for businesses to hire workers has improved, businesses are not finding the skills they need to operate effectively. This may ultimately be affecting the productivity and competitiveness of the sector.

These deficiencies are relatively consistent across states, with every jurisdiction reporting greater problems with skills than recruitment or staff retention. An inability to find workers with the right skills was the highest rated reason for difficulties in recruiting staff. In response to deficiencies businesses nominated establishing more flexible working arrangements as the most common response, ahead of establishing formalised training. Developing workforce plans was the least common response. Mature age workers were the most common source of alternative labour, with just over half of all businesses having sought workers from this group.

Under Tourism2020, the Australian Government has identified four key actions to address these challenges:

- Improving recruitment and retention of the industry
- Enhancing regional workforce planning and development
- Identifying education and training gaps and potential mechanisms to address them
- Facilitating workforce mobility and expanding the traditional workforce

Successfully addressing the deficiency concerns raised by businesses will likely require a multifaceted approach.

- Career development and promotion – with the current cohort of workers appearing to be relatively new to the sector, retaining them and providing them with the right experience will be crucial for the sector in overcoming its projected skills shortage. Attracting more workers to the sector and demonstrating career pathways will also be important in meeting projected shortages.
- Use of alternative labour streams – a significant number of businesses continue to look to mature age, youth and overseas workers to fill gaps in their workforce. The government may be able to assist in facilitating through targeted programs and visa reforms
- Training – appropriately targeted training will help ensure that workers coming out of the training system have skills appropriately tailored to the needs of the sector. There may be benefits in the sector working more closely with training providers to ensure these benefits are realised
- Regional and sectoral solutions – there are differences in the labour market by state and industry. These differences are likely to require localised elements to their solutions, including improved workforce planning at the regional level and by businesses

The government must put in place a nationally agreed strategy for training and retention to ensure that the career opportunities available in the visitor economy are able to be filled by skilled Australians. Although the primary focus should be on training and retaining skilled local staff, migration including seasonal, skilled and short term migrants also play a vital role in filling gaps. The next government must work with industry to ensure occupations on the skills list stay relevant and short term programs continue to serve their purpose.

The physical act of getting people in and out of our international airports quickly is vital to ensuring visitors want to return. Adequate staffing of the primary and secondary lines to reduce waiting times for visitors is vital. The roll out of e-gates across all Australia's airports should be a priority. Long queues and hand stamped paper receipts for outbound passengers using the Tourist Refund Scheme need to be replaced with an online system linked to retailers.

## 5.3 Technology creation, collaboration and diffusion

### 5.3.1 The importance of NTBFs in a knowledge-based economy

Maximising our productivity growth prospects for the future will depend on our capacity to move with advances in technology. The OECD (2004) has found that new technology-based firms (NTBFs) deserve special attention on the assumption that they play an important role in the early

commercialisation of new knowledge and, more generally, in facilitating growth-enhancing structural change in product markets (creation of niches) and creating opportunities for labour upskilling and mobility (OECD, 1998). Over the last two decades countries within the OECD recognised high growth, technology based businesses as an important source of economic growth, and a growing number of governments launched programs to systematically invest in the creation and support of high-growth companies. Unfortunately, Australia has not kept pace and has under-invested in catalysing and supporting high-tech industries. Australia has some of the lowest rates of startup formation in the world, and one of the lowest rates of venture capital investment (Startupaus, 2015). The World Economic forum finds that Australia's startup ecosystem is lagging behind those of many other developed nations due to a lack of emphasis on entrepreneurship education, limited engagement with universities and poor cultural support for entrepreneurs.

The PwC study on the Startup Economy commissioned by Google Australia projected that high-growth technology companies could contribute 4% of GDP (or \$109 billion) and add 540,000 jobs to the Australian economy by 2033 from a base of approximately 0.2% of GDP today – but only if action is taken to address several areas of market failure relating to culture, skills, markets, funding and regulation.

NTFBs fulfil an increasingly important role in a knowledge-based economy, both directly as generators of new products and services and indirectly as catalysts in improving knowledge interactions within national innovation systems. NTFBs often bring entirely new products to market, that enhances productivity, quality and choice. 'Revolutionary' start-up firms such as the social media platform (Facebook) and passenger mobility app (Uber) are both well-known examples. NTFBs perform a special function within innovation networks as bridging institutions that close the information gap between large knowledge organisations and firms in traditional industries.

### 5.3.2 Enabling the growth of startups and NTFBs

There have been a number of important developments relating to government policies and programs affecting startups such the Industry Innovation and Competitiveness Agenda (IICA), enabling crowd-sourced equity (CSEF), tax treatment of employment share schemes (ESS), significant investor visa, entrepreneurs infrastructure program (EIP), review of Australia's innovation investment fund (IIF), review of Australia's innovation system, funding for CSIRO and NICTA.

The Significant Investor Visa including a new Premium Investor Visa has been proposed that can provide a 12 month pathway to permanent residency for investors meeting a \$15 million threshold. This is a positive step forward and has the potential to have a positive effect on Australia's flagging venture capital industry. However other policy developments have been problematic in so much as spurring the growth of tech start-ups. For instance the IICA has little relevance to startups and appears to be focused on small businesses or companies in the 'priority industry sectors' such as mining equipment, advanced manufacturing and food and agribusiness. The needs of small businesses and startups needs to be distinguished as technology startups have different needs from small businesses. Excluding promising Australian startups from government support is also evident as a large proportion of Australian tech startups have internet-based business models and do not fall in one of the five 'priority sectors'. Furthermore several countries have already enabled

CSEF and the government should move as quickly as possible to enact enabling legislation so that Australia startups are not disadvantaged.

Other issues include funding for commercialising ideas stream of EIP, the abolishment of the IIF without creating a suitable replacement program to drive the creation of a viable venture capital industry, funding cuts to the CSIRO and NICTA. Whilst there has been encouraging progress made by the government on several fronts, it is widely accepted that the government has decreased its overall level of support for startups in recent years (Startupsaus, 2015).

### 5.3.3 Developing new initiatives for technology creation

Several ideas have been raised to help support start-ups create new technology including setting the right market structures, improving workplace flexibility, continuing to incentives entrepreneurs through R&D grants, creating more lenient bankruptcy and insolvency laws and encouraging 'good practice' forums for universities on corporate engagement and create new incentives for researchers to work more cohesively with industry to commercial ideas.

The two most common approaches taken by governments globally include co-investment funding (where the government invests alongside angel investors) and tax incentives for angel investment in high growth companies. There is scope for the Australian government to stimulate greater levels of angel investment by matching private capital with funding from a seed-stage co-investment fund. Returns from investments could in time make the fund self-sustaining. International examples include the New Zealand Seed Co-Investment Fund – a A\$37m early stage direct investment fund established by the New Zealand government in 2006. Its purpose is to provide matched investment alongside approved angel groups into high growth New Zealand startups. It has made over 115 investments and unlocked more than A\$110m of angel capital.

Australia has one of the lowest rates of venture capital investment into startups in the developed world. Total domestic venture capital investment in Australia is currently A\$9.55 per capita per annum, compared to over A\$400 in Singapore and A\$135 in the United States. The UK Startup Loans scheme provides seed capital and mentoring to early stage businesses. Loans totalling over A\$250 million have been awarded to 25 300 businesses since the program commenced (UK government, 2012). Similarly the Chinese government has recently announced that it will create a National Venture Capital Fund, an A\$8.3 billion seed-stage fund to invest in startups as part of the country's efforts to grow its startup sector and overcome lack of early stage funding. The Young entrepreneur's startup loans scheme as proposed by Startup Australia could provide financial support to first-time entrepreneurs under the age of 30. The program would provide pre-seed capital of up to \$50 000 to entrepreneurs who can demonstrate the beginnings of a viable tech startup and a commitment to pursuing it, and should be based on successful international models such as the UK government's Startup Loans program mentioned earlier.

Other proposals include creating a capital gains exemption and/or tax deduction for angel investments. This is based on similar deductions schemes such as the Angel Investors Deduction Scheme introduced by the Singapore government in 2010. Its stated goal is to encourage more investors to support startups by providing 50% capital gains exemption for angel investors.

### 5.3.4 The importance of technology diffusion

Australia ranks 116th out of 142 countries for innovation efficiency. Furthermore, Australia is ranked last out of 33 countries in the OECD for collaboration (OECD, 2013). To achieve collaboration levels in line with the average of the top five OECD countries, Australia would need to obtain a fivefold improvement in industry-research collaboration with small and medium sized enterprises (SMEs) and sixteen fold increase with large firms (NSWBC, 2014). As a small economy, Australia has historically been more of an adaptor and user, rather than generator, of advances in technology. This implies that it is important that policy facilitates an environment in which firms can nimbly absorb technological progress from overseas

Government can act to help close the gap between Australia and the best practice frontier by ensuring we are open to ideas and technology from abroad and remove any impediments to the flexibility, responsiveness and dynamism of firms. Australia requires critical research infrastructure. Funding for research infrastructure is necessary to maintain world-class research capability and capacity for innovation in industries. Existing initiatives such as the National Collaborative Research Infrastructure Strategy (NCRIS), the Australian Synchrotron and the Square Kilometre Array (SKA) are a good starting point and require further consideration.

We also need to create the right incentives for universities to collaborate more closely with industry. New research funding arrangements for universities that aims to give equal emphasis to success in industry and other end-user engagement as it does to research quality.

Assisting innovators to reach global markets is an important initiative. The World Economic Forum ranks Australia in the top 4 on international flows of knowledge and technology transfer, an indicator of FDI as a source technology transfer. This suggests that Australia is increasingly a net importer of technology and know-how and relies on FDI for technology more than most other OECD countries. This supports evidence that Australian innovating firms tend to modify existing innovations, rather than create new innovations.

The establishment of 'landing pads' in global innovation hotspots to support entrepreneurial Australians is an important step forward. Australian market-ready start-ups require access to entrepreneurial talent, mentors, investors and a wider connected network of innovation hubs. Seed funding for instance allows Australian businesses and researchers to collaborate with international businesses and researchers. Reducing barriers to regional collaboration including the Asia-Pacific will promote an open-market approach to industry-research collaboration and provide a mechanism for the spill over of technology and innovation to Australia.

The recently implemented Innovation Connections program aims to connect more small and medium businesses with researchers. The program aims to provide more facilitators so more businesses can access Australia's innovation infrastructure, particularly in regional areas; make matched grants available to support graduate and postgraduate research placements in businesses; make matched grants available to support business researchers to be placed in publicly funded research organisations and identifying opportunities to access research and development and testing facilities by working more closely with the vocational education and training sector. Innovations such as these allow for greater cross collaboration and diffusion of knowledge between researchers, entrepreneurs and industry.

### 5.3.5 Immerse Australian entrepreneurs with other startup hubs



The Australian Innovation System report (2015) has found that collaboration and networking have been cited as consistent weaknesses in the Australian innovation system, compared with other OECD countries. Currently an estimated 100 Australian startups run by 300 Australian entrepreneurs in Silicon Valley, and around 20 000 Australians employed in tech companies on the west coast of the US (The Australian, 2015).

Existing programs such as elevate61 and startup catalyst are commendable but limited in reach. The government needs to significantly extend its support for immersion programs. This can be done through:

- An Australian tech startup showcase event in international tech hotspots
- An Australian Awards/Fellowship program that funds winners to spend a year in a startup hotspot such as Silicon Valley learning about the ecosystem and making valuable connections contingent on returning to Australia to further develop their ideas.

### 5.3.6 Establish a landing pad for Australian start ups

Arriving in an international startup hot-spot such as Silicon Valley is highly valuable to startup founders if they access to the right networks and access to advice when they arrive. Establishing an Australian landing pad in international startup hot-spots would support Australian entrepreneurs and facilitate immersion and learning to delegates, students, entrepreneurs, investors, educators and policy-makers. The landing pad would facilitate an exchange of ideas and influence the entrepreneurial culture in Australia. The aim is to provide:

- Short term office accommodation and meeting rooms
- Investor introductions
- Local market familiarisation and introductions to other tech companies and service providers
- PR and media support to help startup gain traction online and in the media

Several OECD countries including Germany, Ireland, and New Zealand have established landing pads. For example, the German Silicon Valley Accelerator supports German tech startups by providing access to networks, introductions to business angel and venture capital investors, mentoring, and a three month training program in Silicon Valley. The initiative is co-sponsored by both the private and public sector.

## 6 More efficient markets

### Recommendation 6: More efficient markets

- 6.1 Reduce the company tax rate to the average of other advanced economies over 10 years to deliver higher wages for workers
- 6.2 Remove the duplication of state and federal regulation and compliance measures to make it easier for businesses to do business
- 6.3 Continue to embrace international engagement include trade, investment and the movement of people
- 6.4 Consider the priority areas of reform from the Harper Review including areas of government procurement, competitive neutrality, regulatory restrictions, intellectual property and the provision of human services
- 6.4 Continue to consult with small business to better understand the impacts of regulation on small businesses

### 6.1 Taxation issues

According to the World Economic Forum, Australia's tax system is amongst the least competitive in the world ranking 110<sup>th</sup> on the effect of taxation on incentives to work, 101<sup>st</sup> on the total tax rate as a share of profits, and 91<sup>st</sup> on the effect of taxation on incentives to invest. Australia ranks well below most other advanced economies across all three indicators. For example, New Zealand's tax system ranks 12<sup>th</sup> for effects on incentives to work, 59<sup>th</sup> for tax on profits, and 14<sup>th</sup> for effect of tax on incentives to invest.

There is international consensus that corporate tax is the most inefficient major federal tax. Studies have shown that in a small open economy such as Australia, local company tax does not squeeze post-tax returns to foreign investors but instead squeezes local real wages. In the long run, the economic incidence of the company tax falls mainly on labour, resulting in a disincentive to supply it (Arndt-Corden, 2016). The Institute of Economic Affairs finds that the current company tax system has damaging unintended consequences for growth, investment and worker productivity, involves high compliance costs and provides incentives for tax avoidance by multinationals.

All major advanced economies are on a path for company tax cuts in order to boost jobs growth and business investment activity. Australia must remain competitive and be able to attract people to start and operate their business. There is no justification for splitting the corporate tax rate between small, medium and large business. Tax reform should not disadvantage the genuinely vulnerable nor unfairly penalise the prosperous and should focus on maximising growth, efficiency and productivity.

Reducing the corporate tax rate to the average of other advanced economies over 10 years will deliver higher wages for ordinary workers through an upfront investment boost. Cutting the

company tax rate is one of the priorities in the Australian Chambers' Top 10 in 10: Ten steps towards a world-class Australia.

Australia is much too reliant on personal income tax. Greater reliance should be placed on consumption taxes like the GST, which are more efficient because they do not distort decisions about whether to spend or save. On average, OECD countries collect 30.9% of revenue from consumption taxes, whereas Australia collects just 23.7%. These figures reinforce the need for a comprehensive review of the tax system. It is recognised that a number of reviews (concluded and part-finished) have been attempted. It requires an approach that maximises stakeholder support.

## 6.2 Reducing regulatory impediments and red tape

### 6.2.1 Principles of good and bad regulation

Appropriate regulation protects consumers and makes markets function more efficiently by improving consumer confidence and reducing search costs. However, regulations also impose costs. Some costs are direct and relatively easy to measure, including administrative costs (such as reporting and time taken to understand the rules) and substantive costs (such as delays and changes in production processes). Many costs relate to foregone opportunities to create value and barriers to competition. These costs are harder to measure because they require comparisons to unknown counterfactuals.

Reducing red tape and unnecessary compliance measures will make it easier for businesses to do business. Australia's competitiveness ranking on the burden of regulation has climbed from 128<sup>th</sup> to 80<sup>th</sup> in 2 years. Over this period, the Federal government estimates that it has reduced the annual burden of regulation by about \$4.5 billion, including through annual legislation repeal days in Federal Parliament. Given this however, we are far off comparator countries that have fewer and far less complex restrictions and regulations imposed on their businesses.

A key problem with Australia's heavy handed approach to regulation is that it discourages innovation and risk taking. Some of the regulatory problems relate to state regulations. The majority of respondents to the Australian Chamber's National Red Tape Survey said the amount of red tape had increased over the previous 12 months, affecting productivity, labour costs and business expansion. Nearly half of respondents reported that the impact of regulation had prevented them from making changes to grow their business. More than one in four respondents said they spent at least 11 hours a week on compliance and almost 1 in 2 put the annual cost of compliance at beyond \$10,000. Some 55% of businesses said they could not pass on the increased cost to consumers, so they are absorbing the costs of compliance themselves.

For good regulation to deliver in the public interest, it must take into account different and often competing aims and objectives. To assess the importance and validity of regulatory reforms we should consider their complexity and expected impact. Tackling highly complex regulatory issues can present several challenges including polar positions of powerful interest groups, limitations in research literature, the potential to affect several groups and regions, potential downstream impacts and the possession of sentimental value that makes it difficult to drive change.

Restrictions can impose 3 major types of costs:



1. Administration, enforcement and compliance costs: Government as an administrator, may incur operating, monitoring and enforcement costs to ensure the restriction is effective. This may be funded by taxes in which case it should be remembered that the cost of raising 1 tax dollar may be between 20-50% higher and funding may be by direct industry or consumer levies, which will also have costs beyond their direct costs. Industry or consumers may incur extra direct costs in complying with standards set by restrictions and in bookkeeping to prove compliance
2. Losses of technical and allocative efficiency. Business may incur costs indirectly where restrictions prevent them from achieving economies of scale, adopting new technology or quality standard which lowers their cost of production, introducing a new product or service, expanding into a new market or producing at a level of output they regard as optimal. This is especially problematic for small businesses.
3. Consumers may also indirectly suffer the consequences of less rivalry between firms which could lead to less pressure for innovation, less pressure to reduce costs, higher prices and fewer products or services, less information to consumers to make optimal purchasing decisions and less income due to resources being locked into sectors of the economy with low productivity

Reducing red tape and unnecessary compliance measures will make it easier for business, and therefore contribute to a productive and prosperous economy. Regulatory creep into new areas must also be avoided. Industries should be allowed to self-regulate where they can indicate that they are doing so effectively.

### 6.2.2 Priority areas of regulatory reform

The Competition Policy Review identifies key priority areas for reform including:

- Human services – promoting user choice, encourage diversity of provision and encourage innovation in service delivery
- Transport – introduce cost-reflective road pricing in a revenue neutral-way, reform aviation and shipping cabotage restrictions
- Intellectual property – review IP provisions in trade agreements
- Regulatory restrictions - planning and zoning, mandatory product standards, retail trading hours, parallel imports and pharmacy
- Competitive neutrality – improve compliants processes, increase reporting transparency
- Government procurement – policies governing commercial arrangements, promoting competition should be a central feature of government procurement and privatisation frameworks and processes
- Electricity, gas and water – deregulating retail prices, implementation of the principles of the National Water Initiative and review competition in the gas market
- Informed choice – governments should work with industry, consumer groups and privacy experts to allow consumers to access information in an efficient format to improve consumer choice

The Australian Chamber is currently consolidating a regulatory reform master list. The document is aimed at identifying burdensome regulation and red tape restrictions affecting all sectors and industries of the economy.

#### 6.2.1 Small Business should be considered in the design of regulation

The unique characteristics of and challenges facing small business should be considered in the design of regulation. Consultation with small business will be required to properly understand the impacts of regulation on small business, particularly where small businesses are a significant share of the regulated population. Given small businesses have less capacity to distil regulatory requirements and high compliance cost structures, policy makers should remove any unnecessary complexity in regulatory requirements and associated guidance.

### 6.3 Trade barriers

Trade has become dominated by global supply chains and products are increasingly ‘made in the world’ rather than in any single country. Similarly, services are delivered through cross border supply and the internet. As a major global trading nation, Australia is heavily reliant on both import and export of goods and services and with a skilled workforce increasingly engaged in global business, all elements of the Australian economy are exposed to international competition.

There is significant evidence that internationally engaged companies contribute to higher multifactor productivity. Tim Harcourt recently noted that

In 2000, when the new chief economist of the Australian Trade Commission (Austrade) I wrote a paper for the Centre for Applied Economic Research (CAER) at UNSW that showed that Australian exporters, on average, paid 60 per cent higher wages than non-exporters. Exporters also achieved higher levels of standards in occupational health and safety, equal employment opportunity, employment security and invested more in education and training, on average, than non-exporters. Also they were on average, more unionised than non-exporters, and utilised certified agreements (enterprise bargaining) than minimum wage awards.

As there are signs of concerns within the population that trade is not being embraced as much as in the past, it is essential that the government not turn away from continuing to liberalise all facets of our international engagement – trade, investment and movement of people. The terms with which we engage in international trade, receive foreign investment and allow tourist, students and migrants to engage in our economy are entirely within our control and do not require any negotiations with any other country.

As note elsewhere in this submission, the reforms of the 1980s and 1990s which included unilateral reform of our trade and investment barriers created significant improvements in Australia’s productivity and prosperity. However since that time and as we reached the thresholds set for minimum tariffs, the reforms have not been continued in an economy wide sense. Rather Australia has pursued selective reforms through bilateral and regional trade agreements which have only offered “preferential” reforms and also resulted in increased barriers in order to exclude non-party beneficiaries.

In 2010 the PC identified that this approach can in fact create less than desirable outcomes and in 2014, Dr Shiro Armstrong demonstrated that they can in fact be detrimental to the economy in his assessment of the Australia – US FTA.

The Australian Chamber has highlighted these issues in our various submissions on each of the FTAs concluded since 2010 and we are very pleased that most recently JSCOT has recommended that the PC be engaged to assess each treaty as part of the ratification process.

Australia should take unilateral action to reduce its remaining barriers outside of the Preferential Trade Agreements (PTA). This will advance the Australian economy through lower costs across all industries, assisting with further productivity gains, through competition and stimulating innovation.

Australia also needs to foster internationally engaged companies. The recent review of the Export Market Development Grants scheme identified a 7:1 return from the scheme. This scheme should be expanded to support greater international engagement by Australian firms as a major driver of productivity and prosperity.

## 7 Conclusion

The Australian Chamber shares the widespread concern with lagging productivity growth over the past decade or so. With the mining boom behind us we can no longer be reliant on our national resources to drive wage growth and living standards.

In order to lift productivity growth we should first consider improving measurement technique. The Australian Chamber strongly recommends a review of data availability, measurement, and broader methodological constraints that impede on the validity of productivity indicators. Improving the accuracy of indicators will allow for better targeted policy reform including the incentive structures that will drive growth.

In order to create the cities of the future we should turn to the Infrastructure Australia Plan that identifies the opportunities and challenges facing our cities. Our largest cities will grow by 6 million people in the next 15 years. We should adopt its recommendations to avoid the cost of congestion on our transport infrastructure. We should also consider developing a National Freight and Supply Chain strategy with the aim to increase the supply chain efficiency, connect our cities and regional centres and support fast-growing regional hubs to be as productive as possible. We should consider developing north Australia as it has untapped potential for growth and continue to work through COAG Energy Council and its National Energy Productivity Plan, which aims to improve Australia's energy productivity by 40% on 2015 levels by 2030. Establishing Special Innovation Zones (SIZ) will help achieve collaboration levels in line with the average of the top 5 OECD countries and help create world class technology networks and knowledge centres.

We need to improve the health literacy of the population by providing a consistent national health database in plain language format and consider the adoption of the Medicare Select model that aims to support an equitable, sustainable, universal health care system for the long term. We should also aim to improve our public services through improved public consultation processes and the delivery of more user-friendly and consistent online digital services.

The latest NAPLAN, PISA and TIMMS results demonstrate the decline in Australia's education performance both nationally and internationally in science, maths, reading and writing. We need to develop the workforce of the future by enhancing the literacy and numeracy skills of our children in schools and push our focus towards STEM proficiency. We also need to reduce complexity of the workplace relations framework and review the minimum standards objective and setting function. And we need to consider how we can better absorb technology and knowledge from abroad through the establishment of landing pads for Australian startups in international tech hubs such as Silicon Valley.

We need to create more efficient markets by reviewing our taxation and revenue streams, and reduce the regulation and compliance costs on our businesses. The Australian company tax is too high and we risk losing talent and investment opportunities. We must reduce the company tax rate to the average of other advanced economies over 10 years to deliver higher wages for workers. We should aim to remove the duplication of state and federal regulation and compliance measures to make it easier for businesses to do business and continue to consult with small business to better understand the impacts of regulation on small businesses. As raised in the issues paper, the Harper Review highlights several priority areas for productivity growth. We should consider both new and existing ideas to improve on our productivity and avoid further delays in economic reform.

## About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian business at home and abroad.

Our membership comprises all state and territory chambers of commerce and dozens of national industry associations. Individual businesses also get involved through our Business Leaders Council.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

The Australian Chamber strives to make Australia a great place to do business in order to improve everyone's standard of living.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We also represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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