



Australian Government

Australian Government response to the
Joint Standing Committee on Trade and Investment Growth report:

Pivot: Diversifying Australia's Trade and Investment Profile

JULY 2021

Response to recommendations

Recommendation 1

The Committee recommends that the Australian Government develop and release a plan for trade diversification, which includes:

- a focus on maintaining relationships with existing close trading partners as well as expanding trade with other countries;
- a plan for diversifying Australia's range of export goods and services; and
- enhanced diplomatic capability to identify and secure new supply chains and markets.

The Government notes the recommendation.

The Government is delivering a comprehensive suite of measures to support Australian exporters diversify their markets. While businesses are best placed to make decisions about which export markets to target, the Government is focused on creating an open and rules-based global trade system, increasing export opportunities, removing barriers to trade and providing support and advice to help business diversification efforts to succeed.

The Government is promoting an open and rules-based international trade system through its work in the World Trade Organization (WTO), G20 and the Asia-Pacific Economic Cooperation (APEC) forum. We are leading efforts to update the WTO rulebook in areas such as digital trade, in response to modern business priorities. And we are employing WTO dispute settlement processes to remove unfair trade barriers.

The Government is creating new export opportunities by negotiating new trade agreements and is maximising the benefits Australia obtains from its existing 15 free trade agreements (FTAs). Prime Minister Morrison and UK Prime Minister Johnson announced in mid-June 2021 that agreement had been reached on the core elements of bilateral free trade agreement negotiations. Negotiations to conclude an FTA with the European Union are progressing, and the Government is undertaking feasibility studies on how best to strengthen trade and investment with Israel and members of the European Free Trade Association, including through possible FTAs.

Noting the importance of strong international relationships to ensuring competitive access to global markets, the Government is working to expand existing and new partnerships globally to support business efforts offshore and create more jobs and investment here in Australia. (The response to Recommendation 2 elaborates on aspects of these efforts.)

The Government is also taking a targeted approach to assisting business seeking to diversify. This has included: efforts to grow Australia's agricultural exports to \$100 billion by 2030 under the Delivering Ag2030 plan (released October 2020); the Agri-Business Expansion Initiative (ABEI; announced December 2020); Austrade's services to help exporters expand and diversify, including ramped-up services to affected exporters, and reforms to the Export

Market Development Grants (EMDG) Program; and the Department of Foreign Affairs and Trade (DFAT) establishing a trade diversification branch.

The Government provides a range of business services for exporters which support trade diversification. Austrade's core role is working with Australian exporters to support them to expand and diversify. Austrade provides exporters with new market opportunities along with advice, market information and tools to inform their export and expansion strategies. For example, Austrade's Trade Information Service (www.export.business.gov.au) provides exporters with a single source of information on how to export—including regulatory and compliance information and FTA tariff rates—and forms part of the Government's Simplified Trade System reforms. The Department of Industry, Science, Energy and Resources (DISER) supports business' export ambitions through the Entrepreneurs' Programme, providing expert support, funding and incentives to help businesses innovate, compete, and grow in the Australian market and overseas.

Ultimately, choices about the mix and range of goods and services which Australian businesses trade are a decision for those businesses. The Government's domestic policy settings play a role in facilitating these choices—for example, in setting industry, labour market, tax and trade and investment policy—but the private sector remains the ultimate decision-maker. Nonetheless, the Government is stepping up its efforts to increase access to offshore markets and provide new opportunities for Australian businesses.

The Government is actively reviewing Australia's supply chain risks and vulnerabilities and identifying possible approaches to managing them. On 26 March 2021, the Productivity Commission (PC) released an Interim Report on Vulnerable Supply Chains. The Interim Report outlines a data-driven framework to assess which of Australia's imported goods are vulnerable, essential and critical. The Government established the \$107.2 million Supply Chain Resilience Initiative (SCRI) as part of the Modern Manufacturing Strategy. The SCRI aims to strengthen Australia's access to critical necessities, better positioning Australia to respond to future supply chain disruptions (see also response to Recommendation 13). Internationally, DFAT is leading whole-of-Government engagement to promote supply chain resilience. This includes strong advocacy to support free and open trade, as part of the global rules-based order.

Recommendation 2

The Committee recommends that the Australian Government continue its plan to create greater trade opportunities for Australian exporters, including through:

- delivering on its India Economic Strategy;
- encouraging Australian businesses to make greater use of free trade agreements that are currently underutilised;
- developing an Enhanced Economic Engagement Strategy with Vietnam; and
- working with our trading partners to eliminate non-tariff barriers.

The Government agrees with the recommendation.

We continue to implement the Government Response to the India Economic Strategy (IES; announced November 2018). The Government has completed 28 of 43 actions in the initial implementation plan to date, including 5 priority recommendations, to facilitate growth in the relationship. This includes: opening a diplomatic mission in the commercial hub of Kolkata; extending the Australia-India Strategic Research Fund (Australia's largest bilateral research fund); and establishing an air services agreement. Implementation of the IES has been given greater impetus by the elevation of the relationship to a Comprehensive Strategic Partnership (CSP) in 2020. The Government committed \$62.2 million over four years from 2020–21 for new initiatives to support the CSP, including \$19.5 million to support the science, technology and innovation partnership and \$14.2 million to enhance the business and education relationship. On 6 April 2021, the Government launched the Australia India Business Exchange (AIBX), which will provide businesses in both nations with market insights and connections to foster commercial partnerships. In addition, the India Digital Education Hub will encourage more high-quality students to study in and with Australia, enhance promotional activities by stakeholders and improve the experience of students from India as well as their parents, agents, providers and industry. The Government continues to review the IES to identify new and expanded opportunities to enhance Australia's economic and strategic partnership with India.

The Government is committed to promoting Australian businesses' utilisation of FTAs, including by:

- supporting efforts of industry and other stakeholders to raise awareness and use of FTAs;
- providing detailed online information about FTAs, including factsheets summarising outcomes and guides for businesses on how to access reduced tariffs;
- maintaining FTA email inboxes where businesses and members of the public can seek advice from experts on specific issues;
- providing advice and information to industry on tariffs, rules of origin, trade remedies and e-commerce provisions and requirements;
- engaging with industry and businesses to identify non-tariff barriers (NTBs) impeding exports and working with these groups to prioritise barriers and advocating for their removal; and

- maintaining the FTA Portal, which is a free and easy to use website that provides information on new access arrangements under FTAs for those businesses seeking to trade and invest in FTA markets.

The Government also facilitates the global competitiveness of Australian industries by lowering input costs for businesses through measures such as tariff concessions.

The Government is committed to finalising a joint Enhanced Economic Engagement Strategy with Vietnam, aimed at becoming each other's top ten trading partners and doubling bilateral investment. The Strategy is being developed based on the input of business and other interested stakeholders. It is expected to include an accompanying Implementation Plan, which will implement a series of mutually beneficial, practical initiatives to deepen our trade and investment links. Some of these initiatives were discussed between the two Prime Ministers at their annual meeting in January, including market access for agricultural products into both countries, online education and Vietnam's capital market development. DFAT is working with other agencies to utilise \$18.5 million over four years to implement the Strategy under the Mekong–Australia Partnership. Work is focused on key priority sectors for both countries including advanced manufacturing, resources and energy, and science and innovation.

Feedback from business indicates that NTBs are a key impediment to trade expansion and diversification. The Government will continue working with Australian industry and businesses to implement the NTB Action Plan, including encouraging foreign governments to remove key NTBs impacting Australian exports in priority target markets and sectors. The NTB Action Plan also provides an additional channel for businesses to report trade barrier concerns to government (see www.tradebarriers.gov.au).

Recommendation 3

The Committee recommends that the Australian Government commit to building the Asia-capability of Australian exporters and investors, including:

- greater development and/or utilisation of programs to boost Asia-literacy of businesses and training for jobs of the future;
- promotion of outward investment in Asia; and
- a post-COVID-19 international education plan.

The Government notes points one and two of the recommendation and agrees with point three.

The Government's commitment to building the Asia-capability of Australian exporters and investors is demonstrated through a range of initiatives.

In April 2013, the Government committed to provide \$37.4 million over 10 years towards the establishment of Asialink Business—a not-for-profit organisation within the University of Melbourne. Since then, Asialink Business has supported a range of customisable training programs and targeted research and awareness raising activities. Examples include New Colombo Plan (NCP) pre-departure briefs, the Asialink Leaders Program, bespoke research and thought leadership reports and in-person and online events. In the 2019–20 financial year, Asialink Business reached over 13,000 participants across 49 events and 86 training programs both in-person and online. Over 19,500 users accessed Asialink Business online resources that include country starter packs for working in key Asian markets.

The Government has established cultural councils supporting people-to-people links underpinning our key bilateral and regional relationships, including a strong component supporting commercial engagement and partnerships. The Australia–ASEAN Council, the Australia–Indonesia Institute, the National Foundation for Australia–China Relations, the Australia–India Council, the Australia–Japan Foundation and the Australia–Korea Foundation build awareness and understanding between the peoples, businesses and institutions of these countries and Australia.

Australia's overseas posts and state and territory offices support Australian business to navigate Asian markets, understand risks and opportunities, and overcome trade and investment restrictions. Our posts provide insights about the challenges and opportunities of doing business in key markets which we share through extensive business engagement. Additionally, Austrade helps exporters understand and access Asian market opportunities and provides advice, market information and tools to inform export and expansion strategies in Asia, including through digital services.

The Government also manages several projects aimed at building the Asia-literacy of Australian business. For example, the NCP, launched in 2014, has awarded around 63,000 scholarships and mobility grants for Australian undergraduates to undertake study and work-based experiences in the Indo-Pacific. In 2019, 99 per cent of NCP Scholars surveyed agreed that they were more confident about engaging with people in the Indo-Pacific

region, all agreed their NCP experience enhanced their cross-cultural awareness and skills, and 97 per cent agreed the program made them more work-ready. In addition, the Australia Awards—prestigious scholarships offered to emerging leaders from across the Indo-Pacific—build understanding of Australia in the region and understanding in Australia of the region, by fostering strong people-to-people links and assisting future industry leaders to build networks.

In addition to assisting Australian businesses find new export markets, DFAT and Austrade's knowledge of commercial practices and in-market contacts in business and government assist Australian businesses seeking to invest in Asia. Support can include:

- providing information about markets and industry trends in particular countries or regions to assist in the development of investment plans, strategies or objectives;
- facilitating introductions to potential international partners, buyers and other in-market contacts;
- providing referrals to service providers who can assist with specialist advice, such as lawyers, business advisors and investment promotion agencies;
- facilitating access to other governments and decision-makers in the market;
- providing advice about the process of establishing an overseas business; and
- ongoing support, including help in identifying market opportunities and addressing local policy and regulatory challenges.

DFAT also assists existing and potential investors by supporting engagement with foreign governments and providing businesses with assessments of political risk and foreign market conditions.

The Council for International Education is leading the development of a new Australian Strategy for International Education 2021–30. The strategy will guide the recovery of the sector in the post-COVID-19 setting and set out a transformative long-term agenda, including strengthening sustainability and building resilience through diversification of country partners, student profiles, destinations, sectors, courses, and student experiences. Consultations on the strategy were launched on 31 March 2021. Advice on the strategy is expected to be provided to the Government in mid-2021.

Through the Study Australia Partnership (SAP), Austrade works collaboratively with all state and territory study destinations to undertake joint marketing and promotional activities in support of a cohesive Study Australia brand presence. While borders remain closed, Austrade continues to promote Australia's international education sector through virtual events and marketing campaigns across priority markets (including Asia), providing consistent, positive messaging to reassure existing students and build a pipeline of new students who may study here when conditions permit.

Recommendation 4

The Committee recommends that the Australian Government increase its encouragement of key Asian languages and cultures for K-12 students, to create better understanding and Asia-capability for future generations.

The Government notes the recommendation.

The Government is committed to supporting the teaching of languages in Australian schools. Six of the 13 languages currently available in the Australian Curriculum are Asian: Chinese (Mandarin); Hindi; Japanese; Korean; Indonesian; and Vietnamese. The Australian Federation of Modern Language Teachers Association (AFMLTA) is undertaking research to inform the development of a national languages strategy. AFMLTA is expected to provide advice to the Government in 2022.

The Australian Curriculum, Assessment and Reporting Authority (ACARA) is reviewing the Australian Curriculum. It is anticipated that a revised curriculum will be put to all Education Ministers for endorsement later this year. Decisions about how the Australian Curriculum is implemented, including the choice of languages offered in schools, is a matter for state and territory jurisdictions and individual schools.

Recommendation 5

The Committee recommends that the Australian Government:

- promote to Australian businesses the benefits of the Regional Comprehensive Economic Partnership (RCEP) (signed 15 November 2020), to ensure businesses are equipped to utilise the agreement; and
- continue to provide support to Australian businesses who wish to take advantage of the RCEP.

The Government agrees with the recommendation.

The Government is committed to promoting awareness and use of the Regional Comprehensive Economic Partnership (RCEP) by Australian businesses. DFAT is:

- providing detailed online information about RCEP, including factsheets summarising outcomes;
- supporting awareness and utilisation activities undertaken by industry stakeholders;
- incorporating relevant RCEP commitments into the FTA Portal prior to entry into force of the agreement (the FTA Portal is a free and easy-to-use website that provides useful information for businesses seeking to access the benefits of FTAs); and
- maintaining an RCEP email inbox where businesses and members of the public can obtain advice from trade experts on specific issues.

Austrade also provides businesses with information on the opportunities created by FTAs, including RCEP, on its website at www.freetradeadvantage.gov.au.

Recommendation 6

The Committee recommends that the Australian Government, including intelligence agencies, take steps to increase industry awareness of national security and national interest risks in relation to trade and investment, particularly for sensitive and critical sectors.

The Government agrees with the recommendation.

The Australian Government is committed to working with industry to maintain the security and resilience of Australia's sensitive and critical sectors. At the same time, Australia continues to welcome foreign business involvement, which: improves Australian businesses' links to global supply chains; provides capital to finance new businesses and enhance existing businesses; finances infrastructure; and encourages competition and increased innovation by bringing new technologies and know-how to Australia.

DFAT actively supports Australian businesses to understand national security and interest implications relating to trade and investment, including through its high-level strategic dialogues with business leaders. Dialogues are chaired by the Secretary with participation from other senior government officials, including from Austrade and the Office of National Intelligence, and are attended by senior Australian business leaders. They provide an opportunity for business leaders to discuss foreign policy, security issues and risks that are relevant to Australian business interests. Dialogue is complemented by extensive and frequent engagement with business on these issues by the global diplomatic network, Departmental officers in Canberra, and DFAT's State and Territory Offices.

The Government is working to bolster the resilience and security of Australia's critical infrastructure. The Department of Home Affairs (Home Affairs), together with relevant intelligence agencies, engages with the telecommunications sector on a case-by-case basis to provide in-depth technical guidance and targeted security assistance on their networks and facilities and use of vendors. Home Affairs also discusses potential risks related to equipment supply, outsourcing and offshoring arrangements, and provides guidance on designing and implementing mitigations.

The Government, through the Security Legislation Amendment (Critical Infrastructure) Bill 2020, is introducing:

- additional positive security obligations for critical infrastructure assets, including a risk management program, to be delivered through sector-specific requirements, and mandatory cyber incident reporting;
- enhanced cyber security obligations for those assets most important to the nation, described as systems of national significance; and
- government assistance to relevant entities for critical infrastructure sector assets in response to significant cyber-attacks that impact on Australia's critical infrastructure.

When combined with better identification and sharing of threats, this framework will ensure that Australia's critical infrastructure assets are more resilient and secure. The Home Affairs-administered Trusted Information Sharing Network (TISN) enables industry (through industry sector groups) to securely share information in a trusted environment with the Federal and State and Territory Governments. As part of the reforms to the *Security of Critical Infrastructure Act 2018*, the Government is enhancing the TISN to better reflect the increasingly interdependent and interconnected nature of Australia's critical infrastructure.

The National Counter Foreign Interference Coordinator, the Industry Portfolio, and the Australian Intelligence Community work together to safeguard key sectors of Australian industry by raising awareness of, and building resilience to, foreign interference and other malign activity. Engagements seek to arm Australian industry with the knowledge and tools needed to make informed and measured decisions on international engagements, partnerships and business endeavours; and enhance their protective security measures for enduring resilience to foreign interference threats.

The Government has developed the Critical Technology Supply Chain Principles (the Principles) to support industry to improve their understanding of technology supply chains so that businesses consider security risks when adopting or procuring critical technologies. These Principles are intended to act as a tool to assist governments and businesses in making decisions about their suppliers and transparency of their own products. They will be non-binding and voluntary for industry but will be incorporated by the Government as part of its own decision-making practices. Industry was closely involved in the development of the Principles, complementing industry engagement on Australia's Cyber Security Strategy 2020 and reforms to protect Critical Infrastructure and Systems of National Significance.

The Australian Security Intelligence Organisation (ASIO) continues to engage with industry through its Outreach program (formerly the Business and Government Liaison Unit) on current and emerging security threats, and the design and application of security policy. ASIO is currently engaging with the Australian Cyber Security Centre, DISER and Department of Education, Skills and Employment (DESE) on an initiative to raise security awareness in the export trade sector.

Recommendation 7

The Committee recommends that Austrade work with Australian exporters to help them:

- factor into their planning the market risks associated with economic slowdowns of key trading partners, natural disasters and trade challenges; and
- identify risks in relation to trade and investment.

The Government notes the recommendation.

Austrade supports Australian exporters with advice, connections and insights from its global network and provides a range of services to help exporters identify and plan for market risks and risks associated with trade and investment activities.

For example, Austrade's Excelerate service delivers an end-to-end service to businesses which have strong international growth potential. Excelerate clients are connected with a global team within Austrade that provides actionable advice, overseas connections, in-market visit support, and cultural and regulatory guidance.

Austrade's work and resourcing have pivoted during the COVID-19 pandemic to:

- continue to help businesses retain, expand and diversify export markets;
- provide exporters with advice and insights into the challenges and the changing opportunities from COVID-19 economic recovery and trade disruptions;
- accelerate Austrade's digital services for exporters;
- inform the Government's FTA agenda;
- support the visitor economy and tourism sector; and
- continue to encourage foreign investment, including by identifying opportunities and risks.

Recommendation 8

The Committee recommends that the Australian Government provide further guidance to all board members of exporting businesses to ensure that they are aware of their obligations under the Corporations Act, to exercise a reasonable degree of care and diligence when deciding to undertake international trade.

The Government notes the recommendation.

Company directors have a number of obligations under the *Corporations Act 2001* including to exercise a reasonable degree of care and diligence in exercising their powers and discharging their duties. The Australian Securities and Investments Commission provides information on its website to support company officeholders in understanding their legal obligations under the *Corporations Act 2001*.

In line with Recommendation 7, Austrade, along with DFAT and other agencies with an offshore presence, will continue to work with Australian exporters to help them factor in market risks and identify trade and investment risks. This will support boards to take an appropriate risk management approach, having regard to all the risks that might impact their obligations to exercise a reasonable degree of care and diligence.

Recommendation 9

The Committee recommends that the Australian Government:

- work with the states and territories, industry and university sector to investigate new options to increase domestic funding for universities and university research;
- in consultation with the states and territories, require universities to publicly disclose the receipt of funding (including for research) from foreign state-linked bodies or individuals; and
- if the veto powers contained in the *Australia's Foreign Relations (State and Territory Arrangements) Act 2020* allow, consider restrictions on foreign state-linked funding to Australian universities where such funding is considered to not be in the national interest.

The Government notes the recommendation.

The Government recognises that research and innovation are key to the nation's growth and the critical role the university sector plays in supporting these endeavours. The Government has committed significant new investments in funding for higher education and research, with a \$20 billion investment in 2021—an increase of more than \$2 billion from 2020.

The Government's Job-ready Graduates package of higher education reforms will provide additional support of more than \$400 million for regional students and regional universities. Additionally, a new \$900 million National Priorities and Industry Linkage Fund will support universities to work with local industry to produce job-ready graduates.

The Government's 2020–21 Budget provided \$550.3 million for additional university places and short courses and invested \$1.4 billion to support university research and drive greater collaboration between universities and industry.

Existing mechanisms across Government capture the vast majority of foreign funding being provided to universities. Provisions in the *Higher Education Support Act 2003* require universities to report international research funding through the Higher Education Research Data Collection and universities submit annual financial statements to DESE.

In addition, the Foreign Arrangements Scheme, established by *Australia's Foreign Relations (State and Territory Arrangements) Act 2020* (the Act), enables a consistent approach to foreign arrangements across all levels of government. The Scheme ensures Australia's foreign policy interests are appropriately considered and consistently applied when States and Territories, local governments and public universities enter international arrangements.

Under the Act, Australian public universities are required to notify the Minister for Foreign Affairs of arrangements, including funding arrangements, with a foreign government or a foreign university that does not have institutional autonomy. The Government has

published guidance on institutional autonomy, available at www.foreignarrangements.gov.au.

The Minister for Foreign Affairs will assess whether arrangements adversely affect Australia's foreign relations and whether they are inconsistent with Australian foreign policy. National interest considerations may form a part of this assessment. Where a foreign arrangement adversely affects Australia's foreign relations or is inconsistent with Australia's foreign policy, the Minister may prevent an arrangement from proceeding or require the termination or variation of an existing arrangement.

The Minister for Foreign Affairs is required to maintain a Public Register of foreign arrangements. The Public Register may include information about external funding arrangements involving Australian public universities where the arrangement is within the scope of the Scheme. Arrangements between Australian public universities and foreign governments or foreign universities that do not have institutional autonomy are within scope.

Information on the Public Register will include the title of the arrangement, the parties to the arrangement and whether any decisions have been made by the Minister for Foreign Affairs in relation to the arrangement, provided that information is not exempted from publication under the Act. It will not include the quantum of any funding.

Recommendation 10

The Committee recommends that the Australian Government:

- encourage the Productivity Commission to research international best practice regarding government support for innovation and industry;
- build links with other national bodies that are tasked with this mission; and
- adapt and apply these learnings to Australia's circumstances.

The Government agrees with the recommendation.

The recommendation is consistent with the role of the PC established in section 6(1) and section 8 of the *Productivity Commission Act 1998*, which includes:

- undertaking research about matters relating to industry, industry development and productivity;
- providing advice to the Minister about matters relating to industry, industry development and productivity, as requested by the Minister; and
- in the performance of its functions, having regard to the need to encourage the development and growth of Australian industries that are efficient in their use of resources, enterprising, innovative and internationally competitive.

To achieve these functions, the PC undertakes a variety of activities including:

- engaging with agencies from other countries and with international organisations;
- working with Australian Government agencies and organisations;
- publishing the Trade and Assistance Review (TAR) every year. The TAR includes estimates of the support the Government provides to industry in Australia, and a summary of international developments in trade policy;
- undertaking inquiries and studies into a variety of topics and making recommendations to governments to improve the performance of relevant industries; and
- publishing Productivity Insights on Australia's productivity performance and including discussion of policy options for governments to increase industry productivity.

Recommendation 11

The Committee recommends that the Australian Government:

- develop an industry and university engagement strategy to foster innovation and the commercialisation of research; and
- partner with industry members and universities to implement the strategy, by providing adequate funding, guidance and support.

The Government notes the recommendation.

The Government supports industry and university engagement and the commercialisation of research through a range of programs such as the Australian Research Council Linkage Program, Cooperative Research Centres and the Modern Manufacturing Initiative (MMI).

The Government committed \$5.8 million in the 2020–21 Budget to scope a University Research Commercialisation Scheme to better translate and commercialise university research outputs. An expert panel chaired by Mr Jeff Connolly, CEO of Siemens Australia, is leading consultations on this work. Additionally, the Government is supporting enhanced industry and university partnerships to foster innovation in higher education through the \$900 million National Priorities and Industry Linkage Fund.

Specific industry work is also underway, including through the Government's commitment to releasing a National Agricultural Innovation Policy Statement and Digital Foundations for Agriculture Strategy by mid-2021. This will help to create a world leading agricultural innovation system and drive uptake of digital technologies.

Recommendation 12

The Committee recommends that the Australian Government in partnership with the university sector seek to take advantage of our low COVID-19 risk to further engage with new and emerging education markets and promote Australian universities as high quality, safe institutions.

The Government agrees in principle with the recommendation.

The Council for International Education is leading the development of a new Australian Strategy for International Education 2021–2030, which will guide the recovery of the sector and position Australia as a safe and trusted partner of choice in international education, including through our low COVID-19 risk.

The Government is supporting the sector to secure a pipeline of students for the coming years, including through investment in new digital tools like the Study Australia course finder. A new five-year agreement between Austrade and FutureLearn enables Australian providers to offer and promote online short courses, microcredentials and cumulative qualifications to over 12 million potential students globally. This complements ongoing work to promote Australia's international education sector through virtual events and marketing campaigns across priority markets (including Asia), providing consistent, positive messaging to reassure existing students and build a pipeline of new students who choose to study here when conditions permit.

The Government continues to support expanded global opportunities for the education sector by negotiating FTAs, improving recognition of Australian qualifications delivered offshore and online, strengthening links with partners, and through a network of education counsellors offshore providing market intelligence.

Recommendation 13

The Committee recommends that the Australian Government work with industry, unions and universities to significantly increase Australia's sovereign manufacturing capacity.

The Government notes the recommendation.

In October 2020, the Government launched the Modern Manufacturing Strategy. Under the Strategy, \$1.5 billion will be invested over the next four years to help Australian manufacturers become more competitive, resilient and able to scale up.

As part of the Strategy, the \$1.3 billion Modern Manufacturing Initiative (MMI) will help businesses build capacity, translate ideas into commercial successes and integrate into local and international value chains. Working with industry, six national manufacturing priority areas have been identified and road maps developed for each (Resources Technology & Critical Minerals Processing, Food & Beverage, Medical Products, Recycling & Clean Energy, Defence and Space). Industry taskforces led development of the road maps, which set clear goals, opportunities and actions for each priority area over a 10-year horizon.

In addition, the \$107.2 million Supply Chain Resilience Initiative (SCRI) aims to strengthen Australia's access to critical necessities, better positioning Australia to respond to future supply chain disruptions. Through the SCRI, the Government is working with industry to identify critical products; map supply chains and Australia's manufacturing capabilities; evaluate supply chain resilience under normal circumstances and in crisis situations; and to identify options to address supply chain vulnerabilities. From July 2021, businesses will be able to access support to establish or scale a capability that addresses a supply chain vulnerability.

Recommendation 14

The Committee notes the Productivity Commission's current review of Australia's resilience to global supply chain disruptions, and further recommends that the Australian Government ensure that Australia has adequate domestic supplies of key resources, such as fuel and medical supplies, to lessen the impact of global supply chain disruptions in the event of a crisis.

The Government notes the recommendation.

The Government is committed to understanding where supply chain vulnerabilities lie, where these vulnerabilities risk critical impacts and where businesses lack the information or means to manage these risks themselves. On 19 February 2020, the Australian Government asked the PC to examine the nature and source of risks to global supply chains. The PC's interim report on Vulnerable Supply Chains was published on 26 March 2021, with the final report expected to be released in July 2021.

The interim report found that only a small fraction of Australia's imports is vulnerable to serious supply disruption. It outlines a framework to identify supply chains that are vulnerable to disruption and applies it to Australian imports. The interim report suggests that most risks are best managed by individual firms, but also identifies strategies to manage supply chain risks and the circumstances under which governments might intervene.

The PC report has informed the Government's consideration of a standing capability to assess and provide advice on risks to critical supply chains. Once established, this capability will lead and coordinate whole-of-Government efforts to address critical supply chain risks and related engagement with Australian industry and partner countries.

DFAT is collaborating with trading partners through the WTO, APEC, OECD and the G20 to keep international markets and supply chains open and resilient, address impediments caused by restrictions on travel, and ensure emergency response measures are proportionate, transparent and temporary. DFAT is also actively advancing collaboration with international partners as a "low cost" policy response option to strengthen Australia's supply chains.

On 1 October 2020, the Government announced the SCRI, as part of the Modern Manufacturing Strategy, which aims to strengthen Australia's access to critical necessities, better positioning Australia to respond to future supply chain disruptions (see response to Recommendation 13). This includes, from July 2021, support for business to establish or scale a capability that addresses a supply chain vulnerability.

The Government is also acting to manage risks to specific supplies. To secure Australia's long-term fuel supply, the Government has recently committed \$2.4 billion over nine years to maintain Australia's sovereign fuel refining capacity. The package includes:

- Up to \$2.047 billion for the introduction of a production payment to support the two remaining Australian refiners;
- Up to \$302 million to co-invest with refiners to undertake infrastructure upgrades to allow them to supply better quality fuel; and
- \$50.7 million for a minimum stockholding obligation that will act as a safety net for petrol and jet fuel stocks and will increase diesel stockholdings by around 40 per cent.

This builds on the already committed \$332.2 million over ten years to secure Australia's liquid fuel stocks, including \$200 million to build new diesel storage in Australia through a competitive grants program.

The Government has also taken action to purchase Australian Government-owned crude oil at a historically low price to store in the United States Strategic Petroleum Reserve.

To secure Australia's medical supplies, the Government significantly expanded the holdings of the National Medical Stockpile (NMS) in response to the COVID-19 pandemic. In light of the success of the national holdings, in July 2020 the Government committed to a review to inform the development of a comprehensive long-term strategy for future NMS management, including options around continued supply and national holdings.

The Government has committed to providing critical infrastructure owners and operators with clear expectations about ensuring the continuity of the services on which Australians rely, by amending the *Security of Critical Infrastructure Act 2018* to introduce risk management obligations for our most critical infrastructure.

Recommendation 15

The Committee recommends that the Australian Government:

- provide incentives to stimulate the growth of 'industries of tomorrow' including inter alia Australia's video game development industry; and
- provide similar support to that which it provides to Australia's film and television industry.

The Government agrees with the recommendation.

The Government is introducing a Digital Games Tax Offset (DGTO) to promote the growth of Australia's digital games development industry and increase its market share in a rapidly expanding global sector. From 1 July 2022, the DGTO will provide eligible game developers a 30 per cent refundable tax offset for qualifying Australian games expenditure.

The DGTO will make Australia a more attractive and competitive destination for international digital games development, supporting investment and highly-skilled, transferable jobs.

The DGTO will be administered by the Office for the Arts and the Australian Taxation Office. Details of the eligibility criteria and the definition of qualifying Australian game expenditure will be informed through stakeholder consultation led by the Office for the Arts.

The Government also seeks to provide broad support for innovative industries by aligning the tax system and business laws with a culture of entrepreneurship and risk-taking. Broad support for innovative businesses includes:

- tax incentives for early stage investors, administered by the Australian Taxation Office, supporting innovative companies at different stages of development by providing concessional tax treatment for investments made in qualifying early stage innovation companies, such as start-ups, with high growth potential;
- the EMDG, administered by Austrade, providing eligible Australian small to medium-sized businesses with financial assistance for marketing activities aimed at seeking out export markets for their eligible goods, services and intellectual property;
- the Incubator Support Initiative, administered by DISER, assisting new and existing incubators to improve the prospects of Australian start-ups achieving commercial success in international markets, through helping them to develop their business capabilities; and
- the crowd-sourced equity funding framework, administered by the Australian Securities and Investment Commission, supporting start-ups and small businesses to obtain easier access to funding (generally from a large number of investors that invest small amounts of money) by reducing the regulatory requirements for public fundraising while maintaining appropriate investor protection measures.

Recommendation 16

The Committee recommends that the Australian Government establish a clear, consistent definition of national interest for the purposes of foreign investment. The Committee further recommends that the Australian Government issue clear guidance on how the national interest test is applied, to provide confidence to investors and the community that it is being applied consistently and in a way that meets community expectations and creates opportunities for Australian workers, businesses and communities. This could include specific guidance for foreign investment in property, business and strategic assets, and how the Foreign Investment Review Board considers investment from entities where the ultimate beneficiary is or has links to a foreign state.

The Government agrees in principle with the recommendation.

Australia's foreign investment framework balances the need to welcome foreign investment against the need to reassure the community that the national interest (and national security) is being protected. The Government's reforms to the framework, which commenced on 1 January 2021, strengthened its capacity to address national security concerns by requiring mandatory notification of proposed direct investments into national security businesses, and allowing actions not otherwise notified to be 'called in' for screening on national security grounds.

The *Foreign Acquisitions and Takeover Act 1975*, and its accompanying Regulations, provide clarity to investors over the circumstances in which notification is required for screening on national interest, or national security grounds.

Once notified, applications are assessed against Australia's national interest or its national security. These terms are not defined by the Act. To provide guidance to investors and the community, Australia's longstanding Foreign Investment Policy, alongside a range of supportive Guidance Notes, outlines several factors which are typically considered when assessing a foreign investment proposal against Australia's national interest or its national security. These factors include: national security; competition; other Government policies (including tax); impact on the economy and community; and character of the investor.

Specific guidance is also provided on the assessment of foreign government investors, and on foreign investment in property and certain businesses and assets: the guidance can be accessed at www.firb.gov.au/guidance-notes. The Government has also released further detailed guidance on the application of the new national security screening arrangements, including outlining the areas in which voluntary notification of proposed investment by foreign persons is encouraged. While this guidance material clarifies the operation of the foreign investment framework, it does not limit the matters which ultimately may be considered under the national interest or national security test on a case-by-case basis. Retention of this discretion is important and provides the Government with the necessary flexibility to respond to an evolving investment environment.

Recommendation 17

The Committee recommends that the Australian Government consider implementing the international standards for measuring foreign direct investment, to ensure both the 'immediate' and 'ultimate' owners of an investment are recorded.

The Government agrees in principle with the recommendation.

In the Foreign Investment Review Board (FIRB) Annual Report, the source country(s) of a proposed investment is generally allocated based on the known or disclosed ultimate underlying ownership of the investor proposing to make the investment.

The Government will explore options for the Australian Bureau of Statistics (ABS) to produce statistics on actual foreign direct investment by the ultimate owner country on a Balance of Payments basis, noting that it will increase respondent burden.

Recommendation 18

The Committee recommends that the Australian Government increase the quality and timeliness of economic intelligence, both in terms of domestic production and foreign trade markets.

The Government agrees in principle with the recommendation.

Treasury will continue to work with the ABS and other government agencies to identify and develop methodologies and sources that provide better quality and more timely data.

To support Australian business decision making on investment and trade opportunities, the Government already provides support and produces a range of publicly accessible economic intelligence. For example:

- Detailed trade and investment statistics and annual publications on the *Composition of Trade Australia*, *International Investment Australia* and *Trade and Investment at a Glance* are readily available from the DFAT website, including information on Australia's trade by commodity and by country, where Australia invests, who invests in Australia and investment trends.
- The Australian Government's global network and state and territory offices support Australian business to navigate international markets, understand risks and opportunities and overcome trade-restrictive measures.
- Insights from these networks inform Austrade's advice to clients and are available to exporters through its digital services such as the Trade Information Service.
- DISER produces publicly accessible economic intelligence such as the Resources and Energy Quarterly (REQ), which contains forecasts for the value, volume and price of Australia's major resources and energy commodity exports.
- The Treasury provides analysis, advice, forecasts and data to the Government and the public on Australia's economy and developments in foreign markets. It also produces economic forecasts that underpin fiscal projections (revenue and expenses) and guide government policy. The Government publishes the economic outlook in the Budget and Mid-Year Economic and Fiscal Outlook (MYEFO).
- The Australian Bureau of Agricultural and Resource Economics and Sciences provides independent and world-class research, analysis and advice—including economic intelligence on domestic and international markets in its quarterly Agricultural Commodities report and annual Agricultural Commodity Statistics—to inform public and private sector decision-makers on significant issues affecting Australia's agriculture, fisheries and forestry industries.
- DESE helps inform planning and decision-making in the education sector by publishing international student enrolment data and producing data on topics such as international students in competitor countries and offshore delivery of education. More detailed data about the sector (e.g. students' course details including field and level of study) is also made available through Austrade to paid subscribers.

Recommendation 19

The Committee recommends that the Australian Government provide a report on whether the 99-year lease of the Port of Darwin to a foreign company will be subject to the *Australia's Foreign Relations (State and Territory Arrangements) Act 2020* (the Act) and if so, consider taking measures to have the Port of Darwin brought back under Australian ownership if current arrangements are not deemed to be in the national interest. Further, the Committee recommends that other ports and strategic infrastructure owned by, or leased to, foreign corporations also be reviewed under the Act.

The Government notes the recommendation.

The lease arrangement associated with the Port of Darwin is not within the scope of the Foreign Arrangements Scheme. The Scheme is focussed on state and territory arrangements with foreign governments and does not cover arrangements with corporations that operate on a commercial basis. The Government has published guidance on the scope of the Scheme, available at www.foreignarrangements.gov.au. As prescribed under section 63A of the *Australia's Foreign Relations (State and Territory Arrangements) Act 2020*, the legislation will be reviewed in 2024, three years after commencement of Parts 2 and 3.

The Port of Darwin lease fell within a long-standing exemption to the *Foreign Acquisitions and Takeovers Act 1975* (FATA) rules that were in force at that time. Under the law as it was in 2015, states and territories could privatise certain assets without foreign investors seeking approval from the Federal Government. The Federal Government has since put a number of measures in place to further protect Australia's critical infrastructure, including ports. Significant reforms were recently made to FATA to further strengthen our foreign investment regime for the long term. The Government also established the Critical Infrastructure Centre (CIC) in January 2017, to work across all levels of government, and with owners and operators, to identify and manage risks to Australia's critical infrastructure. Complementary to this, the Government passed the *Security of Critical Infrastructure Act 2018* to better manage national security risks to Australia's critical infrastructure in the electricity, gas, water and ports sectors. On 10 December 2020, the Minister for Home Affairs introduced the Security Legislation Amendment (Critical Infrastructure) Bill 2020 to Parliament, which seeks to amend the *Security of Critical Infrastructure Act 2018* to strengthen Australia's ability to manage and respond to security risks across critical infrastructure sectors.

As at 17 May 2021, the Department of Defence, along with other relevant agencies, is undertaking a review of the lease arrangements relating to the Port of Darwin and will provide advice to the Federal Government regarding any identified risks. As the Prime Minister stated on 28 April 2021: "If there is advice from the Defence Department or our security agencies that change their view about the national security implications of any piece of critical infrastructure, you could expect me as Prime Minister to take that advice very seriously and act accordingly".

Recommendation 20

The Committee recommends that the Australian Government investigate ways to incentivise domestic investment from Australian superannuation funds.

The Government notes the recommendation.

The regulatory framework governing investments by superannuation funds (*Superannuation Industry (Supervision) Act 1993*) is designed to be agnostic to the type of investment, so as not to create a regulatory preference for one asset class over another or for investments in one jurisdiction relative to another. Trustees are under an obligation to regularly review their investment strategy having regard to the extent of diversification (including geographic diversification).

Where a superannuation trustee selects to invest members' funds is primarily a commercial decision made by the trustee. However, the selection must be consistent with the best financial interests of the beneficiaries of the fund and the trustees must act with the same degree of care, skill and diligence as a prudent superannuation trustee. In addition, trustees are required to determine on an annual basis whether the financial interests of the beneficiaries are being promoted having regard to the investment strategy of the fund.

Recommendation 21

The Committee recommends that the Australian Government consider the establishment of a national development bank to assist in the development of Australian manufacturing capacity.

The Government notes the recommendation.

In October 2020, the Government released its Modern Manufacturing Strategy, outlining a 10-year plan to deliver scale, improve competitiveness, and build resilience in areas of Australia's comparative advantage and strategic interest. This includes the \$1.3 billion MMI (see response to Recommendation 13).

In developing and implementing the Strategy, access to capital was raised as an issue for several manufacturing sub-sectors. The MMI will play a role in addressing this issue—early funding rounds of the MMI have received a strong response. Given implementation of the MMI is in its early stages, it would be best to evaluate the progress of the Strategy and MMI in delivering on the 10-year plan before considering a development bank to invest in Australia's manufacturing capacity.