



BHP PRE-BUDGET SUBMISSION 2021-22

Introduction

BHP welcomes the opportunity to participate in the consultation process for the 2021-22 Federal Budget.

As one of Australia's largest companies, BHP stands ready to support the nation's long-term growth and prosperity. We employ around 45,000 people in Australia – predominantly in regional areas – with tens of thousands more employed in our Australian supply chains.

BHP understands and embraces its role in advancing the success of the nation and has sought to act with this in mind, especially during the COVID-19 pandemic. Working in partnership with communities, suppliers, and government, we have continued to operate through the pandemic with stringent health and safety measures in place and in ways that actively support the communities and stakeholders our business interacts with.

We understand the trust placed in our sector by the National Cabinet, as well as the responsibility that comes with this, and have sought, wherever possible, to play our part in the collective COVID response. This has included:

- Announcing the hiring of 1,500 additional employees at the start of the pandemic to support our Australian operations;
- Introducing seven-day payment terms for six months for more than 1,100 small, local and Indigenous suppliers and paying all current invoices from this group – delivering an immediate cash injection of \$100 million;
- Establishing a \$50 million Vital Resources Fund to help regional Australian communities in BHP's operational footprint with the additional health and economic challenges of COVID;
- Investing \$30 million into the Future of Work program, a partnership with the Department of Education, Skills and Employment that will strengthen economic resilience in regional communities through advanced apprenticeships, skills and short-course training opportunities targeted to the specific needs of local workforces and small businesses;
- Announcing funding for 2,500 new apprenticeship and training positions at BHP's FutureFit Academy;
- Accelerating growth of the Mining Equipment, Technology and Services (METS) sector through a \$450 million package of initiatives. This includes new BHP contracts with Australian METS suppliers, working with our global technology providers to source more local METS products or work, and new investments in METS technology pilots and emerging businesses.

Australia's response to COVID is reflective of what can be achieved when government, community and business partner effectively for the benefit of the nation. As Australia continues to transition from COVID response to economic recovery, we believe these partnerships will be just as critical, and it is in this spirit that our pre-budget submission is provided.

Economic outlook

There is no doubt that Australia begins its COVID recovery from a comparatively enviable position. On both health and economic indicators, Australia has fared well globally, and we acknowledge the decisive government action that has contributed to this outcome.

Nevertheless, we expect the economy to face a number of headwinds:

- Australia's "new normal", which includes localised COVID clusters and corresponding controls, contains an inherent degree of uncertainty for many businesses. A key priority will be to ensure all businesses in Australia can have the confidence needed to continue to invest and employ in this environment. A nationally consistent approach to border closures would be welcome in this respect.
- Secondly, in responding to unprecedented economic disruption with much-needed stimulus, Australia has accumulated a debt which will need to be managed carefully. A continuing focus on productivity and global competitiveness will be vital to drive necessary economic growth over the long term. We strongly support the government's view that increasing taxes would be counterproductive in a business-led recovery.
- Finally, Australia is an export-dependent economy in a world of rising trade protectionism and escalating tensions with our largest trading partner. As at December 2020, China had imposed trade restrictions on 10 commodities representing \$24 billion worth of Australian exports.

Against this background, BHP has identified certain policy measures that could deliver a direct and meaningful return to the nation by way of jobs, investment and economic growth, particularly in regional economies and communities. We continue to believe a strong partnership between business and government will help stimulate the economy, amplify impact, and build confidence and momentum in Australia's economic recovery.

Policy Recommendations

To harness the momentum of Australia's successful response to COVID, BHP has made policy recommendations that aim to support the Government's objective of a business-led economic recovery.

As the world emerges from the pandemic Australia is presented with a unique opportunity, well within its grasp, to not only demonstrate its resilience but to view this as an opportunity to build back better. Realising that opportunity will require economy-wide cooperation on investment, skills and competitiveness here in Australia to ensure the nation can continue to play to our strengths in providing the commodities, the services, and the knowledge the world needs to recover.

We believe the measures outlined below support this aspiration, providing policy settings that will help unlock investment, create jobs and help business contribute more to the nation's economic recovery.

Recommendation 1.1

BHP recommends that investment incentives be implemented to **encourage nationally significant capital projects in regional areas**. This could be achieved through an investment allowance or another mechanism, with eligibility criteria linked to capital expenditure and job creation. This will help shore up Australia's next wave of investment, providing employment and supply chain opportunities – particularly in regional Australia.

Recommendation 2.1

We also propose the establishment of a new **Federal skills program that partners with large employers across Australia** to support the delivery of nationally recognised apprenticeship and traineeship programs. The program would provide large employers a single point of entry into government and a clear, streamlined process for seeking co-investment – reducing red tape, incentivising investment and helping develop Australia's next generation of skilled tradespeople. This program would not only support regions already suffering from skills shortages but would also help re-skill those from industries significantly impacted by the pandemic.

Recommendation 3.1

Finally, we encourage a continuing focus on Australia's international competitiveness through **stable fiscal settings**, and by providing certainty that existing fiscal arrangements, particularly those that deliver benefits to regional economies such as the fuel tax credit system, will continue to operate as intended. In respect of other taxes and ongoing reviews, such as the Petroleum Resource Rent Tax (PRRT) gas transfer pricing review, BHP encourages efforts to complete this work expeditiously to clarify the fiscal settings that will apply to new projects and to remove uncertainty.

1. Encourage nationally significant capital projects in regional Australia

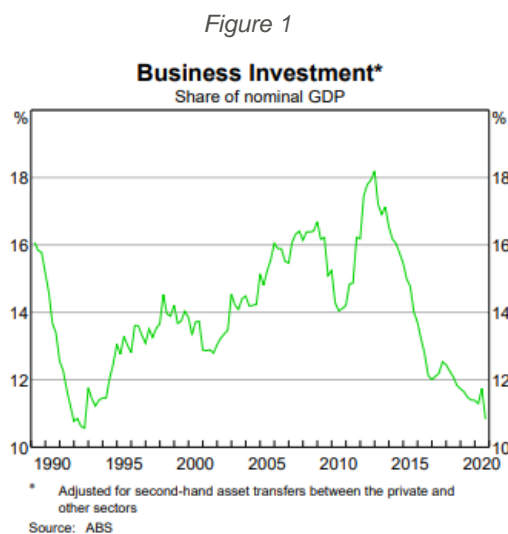
Background

Major projects are a powerful driver of direct and indirect jobs, investment, and supply chain opportunities, particularly in regional areas.

BHP's South Flank iron ore project in Western Australia, for example, began construction in July 2018. The project awarded \$4.2 billion in contracts (including \$3.2 billion for Western Australian-based work) and reached a workforce of around 3,000 people as it moved into its second full year of construction. Thousands of jobs are expected to be created over the life of the project, with an extended impact for new and existing small businesses in our supply chain.

In the current economic environment, however, Australia's project pipeline is challenged: capital budgets are under pressure, uncertainty is high and global competition is intense.

Recent data from the Reserve Bank of Australia and the Australian Bureau of Statistics bears this out: business investment as a share of nominal GDP (see Figure One below) has fallen to levels not seen since the early 1990s¹.



Measures to encourage large-scale capital projects in regional areas – such as a targeted investment allowance – would help secure Australia's investment pipeline and ensure regional communities share in the economic benefits. By setting minimum project spend and job creation thresholds, the government could target its support to nationally significant projects that will generate the greatest economic impact, injecting capital to regional economies quickly and at scale.

Australia's major project pipeline was an important factor underpinning the nation's economic recoveries following the Asian Financial Crisis and the Global Financial Crisis. By helping business get more major projects across the line in an otherwise challenging

investment environment, we can secure Australia's next wave of investment and set the nation up for another robust economic comeback through regional employment and supply chain opportunities.

Recommendation 1.1

Provide investment incentives to encourage nationally significant capital projects in regional areas with eligibility criteria linked to capital expenditure and job creation. This will help bolster

¹ Source: [The Australian Economy and Financial Markets - February 2021 \(rba.gov.au\)](https://www.rba.gov.au/publications/2021/02/the-australian-economy-and-financial-markets)

Australia's next wave of investment, creating confidence, employment and supply chain opportunities – particularly in regional Australia.

2. Partnership on skills and training

Background

BHP opened its FutureFit Academy in March 2020, offering fast-tracked mining apprenticeships and traineeships, backed by nationally recognised curricula. To date, more than 460 people have started their career in BHP through the FutureFit pathway.

In October 2020, BHP announced it would fund 2,500 new FutureFit apprentice and trainee positions over the next five years at a cost of \$300 million. Places will be split between the Academy's purpose-built campuses in Mackay, Queensland and Welshpool, Western Australia, where students access real-life workshops and virtual reality simulation technology as part of their learning.

The FutureFit investment will create a pipeline of highly skilled, job-ready talent, and follows careful consideration of how BHP could make a direct and meaningful contribution to Australia's economic recovery.

The initiative is scalable and could accommodate additional co-investment by government to deliver even more training places. For example, an additional co-investment of \$10 million per annum would increase the overall number of positions to be offered to more than 3,000.

To date, the ability of large corporations to partner with government on skills and training programs has been limited by complex funding arrangements at both State and Federal level. This complexity is magnified when companies operate across multiple state and territory jurisdictions. These challenges were also identified in the Joyce Review.

A clear, streamlined process for large employers to partner and co-invest with government on training delivery would reduce red tape, incentivise investment and help deliver a more flexible, agile response to Australia's skills needs.

BHP also supports the Business Council of Australia's proposal for small, modularised education products – micro-credentials – to facilitate a faster, targeted response to specific skill needs. These micro-credentials should be underpinned by the BCA's proposed National Skills Passport to ensure their validation, recognition and transferability in the labour market.

Recommendation 2.1

Establish a new Federal skills program that partners with large employers across Australia to support the delivery of nationally recognised apprenticeship and traineeship programs.

The program would provide large employers a single point of entry into government and a clear, streamlined process for co-investment.

3. Competitive, stable tax settings

Background

Tax competitiveness continues to be an important factor underpinning the investment decisions of large investors, including BHP. We remain committed to transparency and paying our fair share of tax, while supporting simple, stable and competitive tax rules to underpin long-term investments.

Over the last 10 years, BHP has paid around \$76 billion in Australian taxes, royalties and other payments to government, including around \$10 billion in financial year 2020. Our Australian effective tax rate was 31.7% in FY2020, or 42.4% if royalties are included.

As other countries move towards lower taxation regimes to encourage foreign investment, Australia cannot risk moving in the other direction. We note that consultation is currently underway on a new market mechanism for the Fuel Production Payment post-1 July 2021, and we would be concerned if this resulted in a new tax being imposed on the mining sector, particularly in relation to existing projects. We also seek certainty that the existing fuel tax credit system will remain unchanged, particularly given its significance to regional economies.

In addition, we note that the government is yet to finalise its review into Petroleum Resource Rent Tax (PRRT) gas transfer pricing regulations. Providing certainty on this will encourage the long-term confidence needed for new project investment in long-life projects spanning multiple decades.

Recommendation 3.1

Maintain Australia's competitiveness as an investment destination through stable fiscal settings, by providing:

- Clarification of the operation of the PRRT gas transfer pricing regulations in the context of third-party gas processing arrangements; and
- Confirmation of no change to the existing fuel tax credit system (including no new fuel production levy or additional taxes on the mining sector).

Conclusion

Australia is well positioned to mount a strong recovery after the unprecedented economic disruption of 2020.

The economy continues to face headwinds, however, and the need to build confidence, unlock investment and strengthen employment opportunities will be critical in the year ahead.

BHP is committed to playing our part in Australia's economic recovery and believes our contribution – and that of many other businesses – could be strengthened through the policy settings and initiatives identified in this submission.

Thank you for the opportunity to put forward a submission and we would welcome further discussion on any of the proposals we have raised.