

Australia needs to reverse years of neglecting our innovators

Adele Ferguson

Published: December 8, 2015 - 12:52AM

For years Australia has carried the stigma of failing to commercialise inventions and innovations and blithely watching as inventors and innovators joined a "brain drain" to other countries. The so-called smart country has looked increasingly deficient.

On Monday Prime Minister Malcolm Turnbull took the first step towards addressing that deficiency when he released a \$1.1 billion innovation package.

More important than the funding and tax incentives and tax breaks to start-ups was the decision to create a special cabinet committee that will report directly to Turnbull.

Attaching the innovation and science committee to cabinet sends a strong message to all sectors of the economy – and politics – that after a number of false starts, including former prime minister Tony Abbott's "Tony's tradies" policy, innovation and science will now play centre stage. It should be remembered that Abbott's cabinet did not feature even a minister for science.

It comes at a critical point for Australia as commodity prices smash the mining industry, the population ages and the internet disrupts traditional industries.

To put it into perspective, Australia ranks 116th out of 142 countries when it comes to converting research dollars into innovation and commercial success, according to the OECD. It ranks last out of 33 countries in the OECD for collaboration.

A separate study by the OECD estimates that Australia spent a minuscule 0.227 per cent of GDP on research and development in manufacturing in 2011, compared with 1.29 per cent for the US and 1.33 per cent for Germany.

A study released on December 6 by the Australian Advanced Manufacturing Council compares Australia against 12 competitor nations and gives it a ranking of 10th out of 12.

"Canada, Ireland and the UK have successfully reduced their total tax take on companies to a fair and competitive level to support the country with increased R&D and foreign business investment," according to the report.

"The UK's supportive regime has enabled them to deliver three consecutive years of record foreign inward investment, even when flows into Europe shrank 12 per cent last year," according to the report.

The rankings of Australia relative to other countries in the OECD is deeply concerning, particularly given our track record of inventions, including the bionic ear.

The 24 measures in the policy include a series of tax breaks for start-ups, including a 20 per cent non-refundable tax offset on investments capped at \$200,000 per investor a year, and a 10-year exemption on capital gains tax for investments held for three years.

The injection of capital into the CSIRO, rather than slashing its budget, should be applauded, along with incentives to encourage more collaboration between universities and companies.

The decision to review the country's \$2.9 billion R&D tax incentives is also a smart move.

To this end it is hard to find a critic. Lobby groups including the Business Council of Australia, Australian Private Equity and Venture Capital Association, the Australian Restructuring Insolvency and Turnaround Association, StartupAUS, and others, wax lyrical in media statements about the new initiatives.

But the challenge will be executing the measures. There are a lot of details to work out, including some of the unintended consequences such as postponing the tax breaks until next year, which might cause companies to hold back investment decisions.

The move to loosen bankruptcy laws could also attract a host of problems. Reducing the minimum bankruptcy period for all companies, along with protecting directors from the legal and financial ramifications of trading while they are insolvent if they engage a turnaround agent to restructure the company, could be fraught with difficulties.

If this isn't executed properly it could encourage phoenixing of companies or over-gearing of the balance sheet.

The package focuses on start-ups, which is a good first step. But more needs to be done to help companies that are already innovating.

For too long Australia has been a passive observer as companies have moved offshore to develop technology, or biotech giants such as CSL have opted to commercialise products in countries other than Australia.

In a submission to a Senate inquiry last year CSL didn't mince its words: "Australia is a relatively unattractive location for entrepreneurial manufacturing or as a base from which to commercialise locally developed intellectual property into global markets."

They were harsh words, on the back of a decision by CSL to snub its nose at Australia and build a \$500 million manufacturing plant in Switzerland for three new products that had been developed in Australia.

If Turnbull's innovation policy heralds the beginning of a new era to turn the country into a hub for innovation, then bring it on. But the devil will be in the detail.

This story was found at: <http://www.theage.com.au/business/the-economy/australia-needs-to-reverse-years-of-neglecting-our-innovators-20151207-glhnk2.html>