

Paper

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by

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Introduction

Thank you for the opportunity to present a paper to you today.

The past 20 years have been a period of significant change in Australian industry, and our economy more generally.

The policy frameworks that once guided national industry development from the beginning of the twentieth century until the period of the Hawke/Keating Labor Government from 1983 have well and truly been overtaken.

Under the Hawke/Keating Labor Government, high tariff based industry development ended, while deregulation and competition oriented Australia's economy regionally and internationally.

In industry policy, the Howard/Costello Government has complacently relied almost entirely on the work of Hawke, Keating and Button, seemingly oblivious to the subsequent revolutions brought about by rapid technological change and the inexorable march of globalisation.

For more than ten years, the Government has failed to demonstrate any national leadership required to secure Australia's industrial future.

Australia's manufacturing industry in particular, is now at a tipping point.

There is now a pressing need to refocus a debate on industry policy and strategy.

Our long term future prosperity as a nation will not be guaranteed simply by exporting more raw materials to China during a minerals and petroleum resources boom, or trying to pull labour input costs lower than other nations by slashing wages through extreme industrial relations changes.

Australia's ongoing and future prosperity will be guaranteed by being innovative, with firms and individuals that are the best and most productive in their respective fields.

The period since 1996 represents a missed opportunity that has hurt Australia's ability to remain internationally competitive.

I particularly noted comments by former Liberal Party Leader, John Hewson in an opinion piece in the *Australian Financial Review* on 26 May where he said of the Howard / Costello Government,

"If leadership is about action, and not just position, if its very essence is the capacity to formulate, articulate and market a vision, develop a strategy to achieve it, and to turn that into reality, we are being left high and dry...Government today is dominated by short-termism. It's reactive, rather than proactive, and it's blatantly political and opportunistic."

A Strong Industrial Base is Imperative

It is no secret that as a nation over the past 15 years we have enjoyed some of our best economic times. However this strong performance has not been experienced throughout all parts of the Australian economy.

China has been the key to delivering Australia's historically high commodity prices and historically favourable terms of trade. It has also been a key factor in our declining manufacturing performance over the past decade, hand in hand with the complacency and neglect of the Howard / Costello Government.

While commodities are booming, it has been easy for the Howard/Costello Government to put the challenges of Australian industry to one side. However, neither history nor logic suggests current commodity prices and terms of trade will last indefinitely.

When commodity prices and our terms of trade do at some stage return to something more like historic average levels, our economy will rebalance.

Despite comments by Treasury Secretary Ken Henry in recent weeks to the Australian Business Economists that,

"...some of this loss of manufacturing jobs is, no doubt, precisely what theory predicts would be the consequence of an increase in the terms-of-trade,"

it would be both prudent and sensible for the Commonwealth to make sure that as a nation we are prepared for the challenges of the future.

This preparedness requires the retention of diversity in the Australian economy.

Over the past 30 years manufacturing has been slowly declining as a proportion of GDP from 19 per cent in 1975 to less than 12 per cent today. According to the March quarter National Accounts figures, parts of Australian manufacturing were in fact technically in recession.

This poor performance continues to hurt our economy and see jobs go from that sector.

Since the election of the Howard/Costello Government in 1996, we have seen more than 145,000 Australian manufacturing jobs lost, approximately 60,000 of which have occurred since the Government's re-election in 2004, the equivalent of nearly 6 per cent of all jobs in Australian manufacturing industries.

There is little doubt that the Australian manufacturing industry is bleeding, and bleeding badly – so much so that if these trends were to continue, Australia would actually cease to have a manufacturing industry by about 2025.

No other part of the Australian economy has suffered more at the hands of the Howard / Costello Government's complacency than Australian manufacturing.

This is a tragic indictment on the Howard/Costello Government's industry and trade performance.

Under the Hawke and Keating Labor Governments there was a significant reorientation of Australia's national economic and industrial strategy.

Its purpose was to enhance the competitiveness of Australian firms by removing tariff walls and other barriers that had sheltered Australian industry from international competition and engagement.

With this objective, Labor moved to fundamentally reform Australia into an open, competitive, trading economy.

At the enterprise and industry level, Labor's approach included the introduction of a generous 150 per cent research and development (R&D) tax concession; the development of specific industry policies in areas such as automotive and pharmaceuticals; and a more active approach by Government in attracting foreign capital investment to our nation.

Prior to the changes effected by the Labor Government, Australian industry had not in the main been export oriented. By opening Australia up to the global economy, Australian industry had to be much more responsive to changing international economic and competitive circumstances.

It was these changes that drove a rapid diversification of our export base. From 1983 to 2000 our non-commodity exports increased from 3 per cent to 9.5 per cent of GDP. Since then they have fallen back to 8 per cent.

These Labor reforms re-established Australia as a great trading nation in an era where life was more sophisticated than just being able to rely on wheat, wool and gold.

Under the Howard Government our export performance has tragically gone backwards. The Howard Government has presided over 49 monthly trade deficits in a row – the longest run of any Australian government.

Australia's share of world exports has now fallen to historically low levels – from a high of 1.22 per cent in 1989 to 0.94 per cent today – its lowest level since records began in 1946!

This is not surprising when over the past five years, manufactured exports have grown by a trend rate of only 1.7 per cent, while at the same time manufactured imports have grown by 5.4 per cent.

In 2004-05 Australia's trade deficit in goods and services stood at nearly \$26 billion, with a deficit in manufactured goods of more than \$88 billion!

The ABS estimates that in the December quarter, our negative net export position reduced economic growth by half a percentage point.

Clearly, such a performance record indicates that the Government simply does not appreciate the need for Australian industry to be responsive to a rapidly changing, hyper competitive, increasingly integrated global market.

This was acknowledged by the Reserve Bank in its 2005 September Quarterly Statement on Monetary Policy when it stated that,

"...liaison with firms continues to highlight difficulty in maintaining international competitiveness"

Innovation and the Howard / Costello Government

Despite convening in conjunction with the Business Council of Australia (BCA), a *'National Innovation Summit'* more than six years ago to,

"...identify the optimal mechanisms to enhance Australia's competitiveness through innovation."

the Government is still missing the mark on innovation.

And it's not just Labor that says so:

In its recent paper, *'New Concepts in Innovation: the Keys to a Growing Australia'*, the BCA is most damning of the Government, saying that

"...there is a lack of understanding...about how innovation occurs...and the policy environment required to allow it to thrive"

According to the BCA, this lack of appreciation means that policy development,

"...centres on a narrow understanding of how companies are undertaking innovative activities ... and as a result, leads to a narrow focus for public policies that attempt to foster innovation within the economy."

This is not surprising when one considers the complacent nature of the Government in this area.

It has taken the Government more than 10 years to begin to develop a better understanding of business innovation.

According to the ABS's January 2006 report, *'Patterns of Innovation in Australian Business'*,

"[the] paper represents the first consolidated analysis of innovation across Australian business..."

Despite this, the Government's 'so-called' central innovation initiative, *Backing Australia's Ability (BAA)* was initially developed in 2001 and was designed to represent,

"...a commitment to pursue excellence in research, science and technology through the generation of new ideas; the commercial application of ideas; and developing and retaining skills."

In May 2004, the Government scrapped the \$200 million a year R&D grants scheme, *'R&D Start'*, re-branding it as *'Commercial Ready'*, in response to growing calls for more emphasis on the commercialisation of innovation.

A second program, *Commercialising Emerging Technologies (COMET)* commenced in 1999 and is delivered through a network of consultants contracted from the private sector. As a competitive grants scheme, COMET fails to provide businesses with a secure structure of commercialisation assistance as no business model can rely on the 'chance' of receiving a competitive grant. Such an approach, is of course, not conducive to encouraging often long lived commercialisation initiatives.

The Government has also developed five small innovation programs targeting information technology, nanotechnology, biotechnology and pharmaceuticals, though this sectoral planning has largely been confined to the underwhelming Action Agenda approach.

Overall, the delivery and accountability of the *Backing Australia's Ability* program has been highly fragmented with various components falling under the responsibility of no less than five separate Government departments.

The Government's performance in research and development is similarly underwhelming, comprising three elements:

- 125% Tax Concession – provides deductions of up to 125% of eligible expenditure incurred on R&D activities from assessable income;
- 175% Premium Tax Concession – higher level deduction for companies that have additional R&D expenditure above the previous three-year average; and
- Tax Offset – for small companies in tax loss situation who cannot derive an immediate benefit from the 125% R&D tax concession.

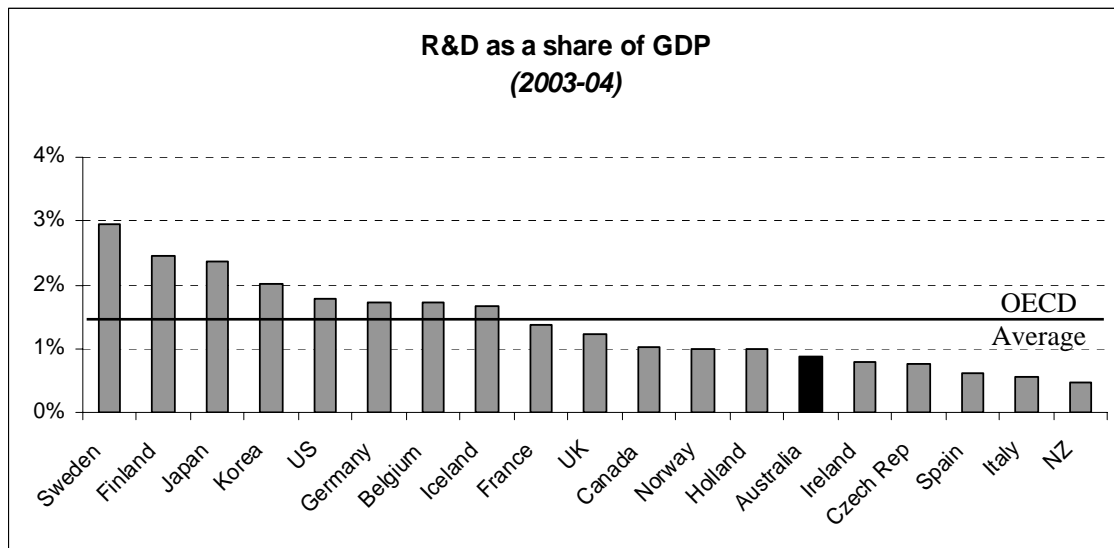
In its 1996 election policy, the Coalition committed to,

"...improve Australia's international ranking in terms of expenditure on business R&D, as a share of GDP"

Despite this, Australian business R&D is at only half the average of OECD nations.

Now into our 15th year of uninterrupted economic growth, Australia remains near the bottom of the international business R&D league table.

Today, business R&D as a proportion of GDP is a meagre 0.89 per cent. The OECD average as a percentage of GDP is 1.5 per cent. At 0.89 per cent of GDP, Australia ranks 15th in R&D effort in the OECD, recording half the effort achieved by the United States, a third of Sweden and substantially less than both Germany and Belgium.



Source: OECD

To put this into perspective, multinational companies such as Merck, Intel and Microsoft separately spend as much on R&D as the sum of all Australian businesses.

Today, expenditure on R&D is no better than it was nearly 10 years ago when the Howard / Costello Government came to office.

It should be higher and it needs to be.

There is little doubt that the Howard / Costello Government's isolated decision to slash the R&D tax concession in 1997 from 150 per cent to 125 per cent was a key factor in this business R&D slump.

At a time when Australian industry was on the cusp of a cultural change toward embracing R&D as a core component of business development, the principal instrument that was driving this cultural change was taken away.

The adverse impact of this action now speaks for itself.

Since 1996, business investment in research and development has been growing at only 2.6 per cent, while in the previous decade R&D investment grew at 11.4 per cent. In manufacturing the fall has been even more pronounced with R&D growth of 10.5 per cent to 1996, down to just 0.8 per cent a year since then.

Research conducted by Melbourne University in its *2005 R&D and Intellectual Property Scoreboard* found that of the over 5,000 Australian companies that undertake any form of R&D, less than 50 spent more than \$10 million on it in 2003-04.

According to the Scoreboard, Australia's R&D report card rated a C minus.

The Howard/Costello Government's neglect is also having a profoundly negative impact on industry skills formation.

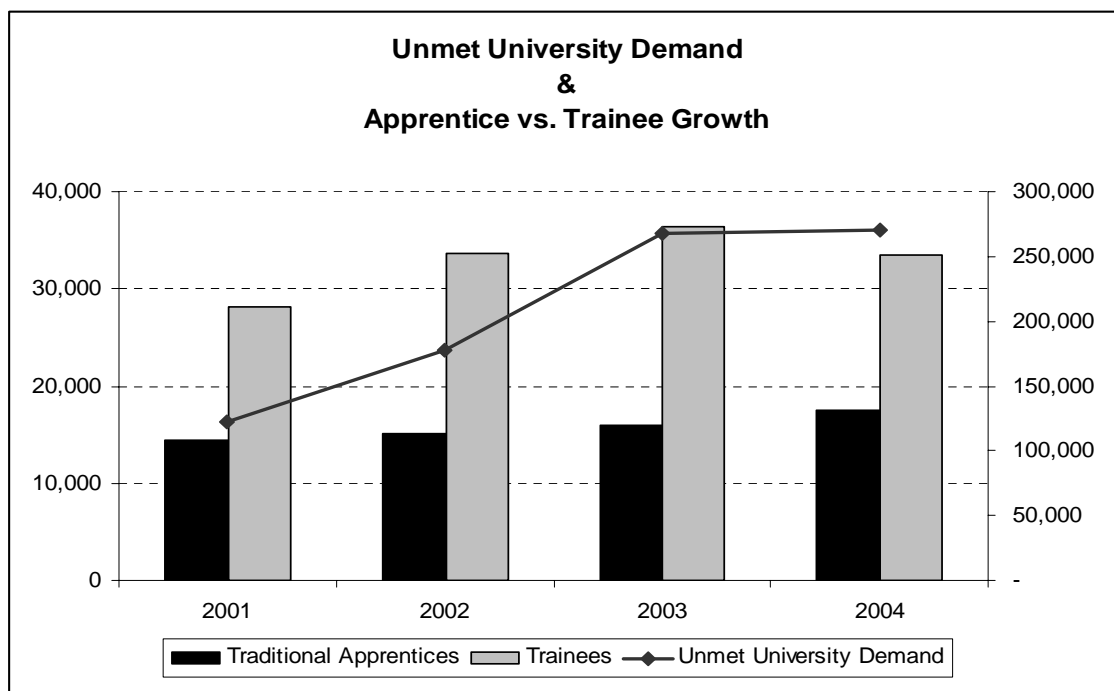
While public investment in universities and TAFE's has fallen 8 per cent since 1995, the OECD average has been a 38 per cent increase. Australia has been the only developed country to reduce its investment in this area. The next worst performing country actually increased its investment by 6 per cent.

Australia is now one of only three countries in the OECD where public expenditure accounts for less than half of all spending on universities and TAFE's.

As a result, it is not surprising that the Australian Industry Group (AiG) estimates our economy will soon be short at least 100,000 skilled tradespeople, while reports indicate that the engineering shortage is so acute, it's taking six months to two years to fill vacancies.

The graph below demonstrates these skills shortages, indicating that most if not all growth in 'traineeships' have been in industries such as hospitality and retail where training is generally shorter (less than 2 years) and at a lower qualification level than traditional apprenticeships.

The picture at our universities is no better. Between 2001 and 2004 there has been a nearly 31 per cent increase in the total number of eligible students unable to get a university place.



Source: DEST Higher Education Statistics 2004 - Students Statistical Appendix; Australian vocational education and training statistics: Apprentices and trainees - various editions

We only need to look at recent surveys, by groups such as the Australian Chamber of Commerce and Industry (ACCI), to see that industry overwhelmingly regards skills shortages as the single greatest constraint on business expansion.

These various policy failures are most overtly manifested in the way in which the Howard/Costello Government has let slip Labor's focus on the export of elaborately transformed manufactures (ETMs).

According to the Department of Foreign Affairs and Trade (DFAT), Australia now has a massive \$85.4 billion trade deficit in high technology manufactures – more than our nation earned from its entire rural sector and up a massive 13.4 per cent on the previous year. ETM exports fell from \$20.6 billion in 2000-01 to \$18.2 billion in 2003-04, while as a share of total exports, ETMs have dropped by more than 7 per cent, from 22.7 per cent in 1995-96 to 15.3 per cent in 2004-05.

Analysis from research group, National Economics shows that while knowledge-intensive manufacturing accounts for 8.4 per cent of the economic value add in Europe, it accounts for only 3 per cent of the value add in Australia. Worse still, while the Australian share of knowledge-intensive manufacturing was rising strongly during the early 1990s, it has declined since 1995 by an average 1.5 per cent a year.

After more than 10 years, what all this demonstrates is that the Government still fails to appreciate the nature of the globalised market and Australia's place in it. The Government has failed to map a long term, forward looking strategy that is sensitive to the competitive advantages of the Australian economy and the pressures being felt by Australian industry.

Labor's Policy Approach: The Innovation Imperative

Australian industry operates across a diverse range, from manufacturing, automotive, to nanotechnology, biotechnology and information and communications technology, each with their own unique challenges and competitive dynamic.

The companies within these areas come in a variety of forms and sizes. Some companies are subsidiaries of multinationals with access to their parent's global marketing resources and supply chains, while others are smaller Australian-owned companies with limited marketing capability, but who have nonetheless successfully exported their products and services.

Ultimately, however, irrespective of the industry or company specific circumstance, it is the products or services themselves and, more fundamentally, the sources of competitive advantage which underpin them that drives success.

It is here, in the establishment and promotion of sustainable competitive advantage that industry policy these days must sit.

Over the past decade or so, companies have spent a great deal of their time and effort building a culture around efficiency, cost effectiveness and quality, all of which are tremendously important and have allowed companies to survive, and for the most part thrive.

Increasingly however, many of the challenges we face as a country and ultimately as a world are caught up in the ability to grow.

Innovation then, is really about growth, because innovation is a primary source of value in a company and an economy.

Innovation, therefore, is more important than ever as we face the problems created by the global economy, and our capacity to compete in it becomes increasingly knowledge-based.

Internationally, innovation policy has become a key element of industry policy as it is increasingly seen as the main factor driving productivity and in turn, economic growth.

The path to international competitiveness for Australian industry has to be driven through innovation.

This was recently underlined in an important study by Labor's Federal Parliamentary Caucus Economics Committee, Chaired by the Member for Prospect Chris Bowen MHR, which outlined a number of positive ideas as part of Labor's innovation policy development process.

Some of the Bowen Committee's ideas included:

- The creation of a new body, "*Innovation Australia*" which would coordinate the promotion of research and development and other economic innovations across Government;
- Placing this new body either under the control of a Minister for Innovation or alternatively the Prime Minister himself; and
- Introducing a new cascading rate of R & D tax concession, which would see businesses receiving a higher tax concession, the higher the proportion of their resources they dedicate to R & D.

These are all positive suggestions as Labor considers these and other ways in which to restore the productive capacity of the Australian economy.

Between 1998 and 2004, growth in multi-factor productivity dropped to a below trend 1 per cent a year, compared with 2.1 per cent during the growth cycle from 1993 to 1998.

In response to this situation, the Government now makes noises about the need for improvement in our productivity performance. It has, however, chosen to try to achieve this through an extreme industrial relations approach which seeks to reduce wages, particularly at the lower end of the scale.

This will do nothing to improve national or workplace productivity.

Generating growth, raising living standards and increasing prosperity requires greater innovation, not more exploitation of those without the market power to resist it.

The approach that combines the interests of employees and employers with that of the national interest is innovation. Innovation expands the cake, and only a growing cake can offer everyone the chance of a fair share of something more.

Australia has had a proud history of creative innovation, from the Hills Hoist to Cochlear. But we now face the twin challenges of harnessing new and emerging industries to our national advantage, while grasping opportunities to strengthen our existing industrial base.

This requires a national approach that places innovation front and centre.

When considering innovation it is important to start with a very broad view.

Innovation isn't just about the idea or the invention. It doesn't just relate to technology or research to bring new products to market. Innovation can occur in business processes, innovation can occur in approaches to the marketplace, and innovation can also occur in which markets a company chooses to serve.

When we talk about innovation we're really talking about a wide variety of activities that change the landscape of competition over an extended period of time.

Innovation is a broad spectrum and industry policy should focus on increasing the rewards and reducing the impediments and risks associated with Australian business innovation.

A number of factors can strengthen Australia's capacity to innovate:

1. Research and Development (R&D) Arrangements;
2. Skills, Education & Training;
3. Venture Capital (VC) Markets; and
4. Intellectual Property (IP) Arrangements.

Let me deal with each of these in turn.

1. Research and Development (R&D) Arrangements

Business expenditure on R&D (BERD) puts Australia in the lower half of OECD countries. At its current rate of 0.89 per cent of GDP, it remains well below the OECD average of 1.51 per cent.

As has recently been pointed out by Treasury in its *'Spring 2005 Economic Roundup'*, this result may be partly explained by the structure of the Australian economy, with its many natural resource endowments, small population and high proportion of SMEs and service industries.

However, a recent report from the OECD, *'Going for Growth 2006'*, shows Australian BERD remains in the bottom quartile of OECD countries, even when adjusted to take account of industry structure.

Companies in China have been boosting expenditure on R&D at a rate of 21 per cent a year. This suggests that many of Australia's industries will soon be facing not only Chinese low-tech imports but technology intensive ones as well.

It is critical that Australia improve its performance in this area.

This imperative is borne out in research conducted by IBISWorld, which finds that over the past five years, the 30 top R&D spending companies produced a weighted average return on shareholders funds of 17.1 per cent compared with just 7.7 per cent for Australia's top 1000 enterprises.

In another study between 1996-97 and 2001-02 by academics from Monash and RMIT for the Taxpayers Research Foundation, R&D activity was found to account for up to 35 per cent of firm value, with R&D firms being 18 to 21 per cent more valuable than firms not undertaking R&D.

The current R&D tax concession arrangements, however, have a number of limitations. Australia is one of the few industrialised countries that has a tax concession that applies to the level of R&D expenditure, rather than being applied to additional or incremental R&D.

In providing a subsidy for all eligible R&D expenditure undertaken by a firm, there may well be only a marginal effect on encouraging businesses to undertake more R&D than they would do anyway.

It is important to bring R&D to a level and scale needed for Australian industry to compete globally.

There are a range of policy possibilities including:

- Adjusting the rates and/or eligibility for the R&D tax incentive;
- Linking the R&D tax incentive to incremental increases in R&D;
- Providing the R&D tax incentive as an outlay as a non-taxable grant or an income contingent repayable loan; and
- Delivering the R&D tax incentive, linked to factors such as knowledge intensity, development of new technology and a high export orientation.

All these deserve more study and thought as Labor develops its detailed innovation policy approach.

2. Support Skills, Education & Training

The way to become a more innovative nation is through greater skills, education and training.

People are key to achieving innovation.

Increasingly, Australian skills development is being threatened by low levels of engineering and trades training, and the existence of employers in the booming commodities sector prepared to outbid all others in attracting talent.

If we do not stem and ultimately reverse this flow, then industry generally will be massively unprepared for the future.

The Howard/Costello Government continues to undermine the viability and value of education.

Labor is committed to reversing this position.

That is why a focus on education and skills development is not only critical to Australian industry, but is also central to Labor's policy approach, as outlined by Kim Beazley in his 'Australian Skills Blueprint' late last year. It is a plan designed to reinvest in our skills base by rebuilding a strong education and training system.

This plan is critical as Australia can only build the best possible innovation capabilities through our education and training system.

3. Venture Capital (VC) Markets

A robust and sophisticated Australian venture capital market is critical to the commercialisation and effective risk management of innovation.

Despite commitments by the Prime Minister at the last election that Australia would have,

“...a world’s best practice investment vehicle for venture capital,”

Australian venture capital represents only 0.1 per cent of GDP. This represents a mere third of the OECD average and leads to an over reliance on equity markets to fund new ventures

Under the Howard / Costello Government, Australia has developed little venture capital, and most of what does exist avoids technologically innovative investments. For example, only 5 per cent of the already small venture capital pool in Australia goes to biotechnology, a sector the Government has identified as one it would like to develop.

Clearly, the private-equity sector is underdeveloped. In contrast to the United Kingdom where 18 per cent of private-sector employees work for entities owned by private-equity or venture capital funds, in Australia only 1 to 2 per cent of staff work for a private equity backed organisation.

According to Andrew Green, chief executive of the Australian Venture Capital Association Ltd (AVCAL), the rules governing foreign private equity investment in Australia as so frustrating they would normally be associated with undeveloped economies,

“We told the government that it wouldn’t work the way it was set up and it hasn’t...It’s like dealing with Botswana.”

Even the Industry Minister admitted in a 28 November 2005, *Australian Financial Review* article that,

“We think we can do more, particularly with early-stage venture capital,”

During the 2004 Federal election campaign, the Industry Minister announced a review, by Brian Watson, of the Australian venture capital industry. This review was delivered to the Minister late last year but is still yet to be made public. With the Government refusing to release this

review, the venture capital measures announced in the Budget exist, not surprisingly, in a strategic vacuum.

Given measures proposed in last year's Budget to abolish capital gains tax for foreign investors on non-property investments such as venture capital, the venture capital limited partnership (VCLP) structure, and its associated restrictions, has become almost redundant.

Measures to establish an early stage venture capital limited partnership (ESVCLP) propose bizarre restrictions around how large a fund may be (\$100 million); the size of the target investment (\$50 million); and when a fund must divest its assets (\$250 million).

In addition, funding for the ESVCLP initiative in the Budget is exceptionally modest, with an anticipated cost to revenue of only \$5 million over the next three years, hardly the kind of money that is likely to have a substantive impact on the Australian venture capital industry, and in turn, Australian innovation.

Early stage venture capital and late stage private equity are two different types of investments – one focusing on young and risky companies (facilitating innovation); the other on expansion or large buy-outs. The problem, however, is that Australian policy does not differentiate between the two.

Labor is strongly committed to promoting the availability and growth of risk capital in Australia. The key is to design a regime with differential treatment between early stage venture capital and late stage private equity.

There are a number of policy possibilities, including:

- An Australian venture capital exchange to help foster capital access and availability for emerging companies.
- An 'Enterprise Investment Scheme' (EIS), similar to that in the United Kingdom which provides a tax incentive for investors who subscribe to innovative companies.

4. Intellectual Property (IP) Arrangements

IP arrangements must seek to strike the appropriate balance between protecting the rights and returns of innovators, while also facilitating an open, competitive market.

IP and trade practice laws covering copyright and patents must take account of the reality of an increasingly knowledge based economy by balancing creative, social and economic ends.

In 1999 and 2000 respectively, the Government received the Advisory Council on Intellectual Property, *Review of Enforcement of Industrial Property Rights* and the Intellectual Property and Competition Review (IPCR) Committee's report, *Review of the Intellectual Property Legislation under the Competition Principles Agreement*.

These reviews were welcome. The problem, however, has been that it has taken nearly six years and three separate Bills to achieve some – but still not all – of the recommendations contained in these reviews.

It is little wonder then that according to an Australian Bureau of Statistics (ABS) report, *'Innovation in Australian Business 2003'*, over 75 per cent of Australia's innovative businesses do not use any formal method of IP protection.

This is an important issue as for many Australian companies, IP is not only their only asset, but also their only product.

Further to these legal aspects, there is also an urgent need to examine taxation issues surrounding the commercialisation of intellectual property.

As a nation, we have a significant weakness in the commercialisation of Australian ideas and innovation.

In an October 2005 survey of R&D firms by the Department of Industry, Technology and Resources, *'The R&D Tax Concession – Impact on the Firm: Report on a Survey of 116 Firms'*, it was observed that,

"A final comment made across all firms, regardless of size, was that the attractiveness of undertaking R&D and claiming the R&D Tax Concession is affected by the daunting challenge of commercialising R&D results. A number of firms made the observation that without assistance to commercialise R&D and to take it to the market, the incentive for businesses to undertake R&D is weak, regardless of the level of government R&D support available".

A significant impediment to the commercial development of innovation is that the current structure of tax assistance for intellectual property is limited and poorly targeted.

Despite the availability of tax incentives at the initial research phase, no real assistance is provided for the crucial phase of commercialising ideas into revenue generating products, services and assets.

Again, it is appropriate to examine a series of possibilities to help eliminate impediments to the commercialisation of Australian ideas and intellectual property.

One historic difficulty is that often the good or bright ideas, and the intellectual property to that idea, is held by one person, a family or a small number of colleagues who incorporate but have limited if any access to capital or revenue streams

One could, for example, consider allowing – as in the United States – small, closely held companies to elect to be taxed as a partnership, thus allowing the tax benefit of losses often incurred at the start-up phase to be passed through to the individual owners who have put their own personal capital in, often mortgaged through the family home or the small business assets.

Or as in the USA and UK, extend the depreciation regime to recognise all IP assets such as trade marks and brand names in addition to patents, copyrights and registered designs and thereby allow depreciation to be taken over the actual economic life of the IP asset rather than over the current statutory period of 20 years.

Conclusion

It has been said that necessity is the mother of invention. Under the Howard Government, it may equally be said that, desperation has become the mother of innovation.

Internationally, innovation policy has become a key facet of industry strategy, as innovation is increasingly seen as a major factor in productivity and economic growth.

However, since taking office in 1996, the Howard / Costello Government has reduced the positive impact of the various measures designed to provide incentives for Australian industry to invest in innovation.

Australian industry faces a commercial and competitive environment that is significantly changing. Australia, indeed the world's competitive landscape looks radically different now to what it did 10 years ago and it's going to look different 10 years from now. As a result, no company or economy can stand still and expect to remain internationally competitive.

The future of Australian industry must be underpinned by innovation. This will be driven by sustained and substantive research and development; a highly skilled and educated workforce; initiatives in intellectual property and venture capital finance to facilitate commercialisation; and an open and progressive cultural approach by industry.

Only in this way can we ensure the future of a modern, dynamic and successful industrial base.

Thank you for the opportunity to speak with you today.