Australian Institute for Commercialisation

ideas → opportunities → outcomes

AIC RESPONSE TO GREEN PAPER "VENTUROUS AUSTRALIA"

Earlier in 2008, the Australian Institute for Commercialisation (AIC) made several submissions to the review of the National Innovation System. We were pleased to see that many of the topics we developed were broadly covered in the report "Venturous Australia".
We are pleased that the report recognises that the entrepreneur is the key organiser and agent within the innovation system and that commercialisation happens in 'the firm'. In heeding the central role of entrepreneurial firms, the report calls for building up Australia's human capital and talent pool, improved information flows, and better integration of the entire innovation system with other global efforts. At a strategic level, the report calls for government to play its role and to strengthen the supporting infrastructure, particularly research capability; to transform and rationalise tax incentives; manage innovation priorities through a new National Innovation Council; and take on board an innovation culture within the public sector itself.

However, in places the report lacks detail and we believe some recommendations work against the national interest. Our key concerns are highlighted below.

INCREASING INNOVATION WITHIN THE FIRM

Recommendations 3.1 to 3.3 are intended to address the networks and soft infrastructure required for "firms to acquire, absorb, and apply knowledge from all sources" (pg 33). Left unanswered in the remainder of the report are details of programs indicating **how** firms will do so. The proposed solutions of an Enterprise Connect Network, and an unspecified "Innovating Enterprises program", risk becoming top-heavy and government-led rather than market-led. The evidence from a number of states that have pursued a similar approach reveals just how hard it is for government business or innovation centres to reach small firms and satisfy the principles outlined in recommendation 3.1.

Receptiveness and the absorptive capacity of many small businesses do need improving, and company boards should play a role here. How will they be reached? Independent intermediaries between small businesses and other organisations including those in the research sector can connect and facilitate demand-driven collaborations by improving access, bridging cultures, sharing trust and getting projects off the ground. We trust that the expansion of Enterprise Connect and the other recommendations are intended to achieve this. How are such collaborations to be identified and encouraged?

In a similar vein, the highlighted comment (pg 82) by Joshua Gans suggests that "the government could act as an honest broker in the marketplace for ideas; bringing together those with problems and those with technical know-how and the ability to find solutions". The logical conclusion of this would be a recommendation that some variant of the axed Intermediary Access Program be restored. After all, this was the function of TechFast, and we are concerned that the report has omitted to highlight the evidence from the two TechFast pilot programs that would support such a

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claim. However, instead there is a puzzling non-sequitur recommendation (7.1) that “the Australian Government should experiment with the use of prizes to stimulate innovation”! We have no issue with the recommendation, only with the flow of logic and complete lack of supporting justification.

FREE ACCESS TO PUBLICLY FUNDED RESEARCH

Recommendation 7.10 referring to “machine searchable repositories for scientific knowledge” together with Recommendation 7.14 suggesting that “research funded by governments… should be made freely available over the internet as part of the global public commons” cause the AIC considerable concern. The pursuit of what may seem an idealist and noble cause paired with a philosophical stance against research commercialisation have resulted in a recommendation that is commercially naïve and potentially damaging to Australia’s AIC RESPONSE TO GREEN PAPER “VENTUROUS AUSTRALIA”
interests. We strongly recommend that this creative commons approach is assessed by Treasury, with serious attention given to the economic opportunities that have already been achieved for the nation (and to a lesser extent to the institution) through successful commercialisation outcomes.

We agree that (pg 67) “research commercialisation is not a core role for universities. Nevertheless, universities can play a vital role in the commercial process. In cases where the benefits of research are best achieved through commercial engagement, universities, should, where possible, attempt to partner with appropriate stakeholders to achieve these goals. Such instances are in the minority and universities more commonly play a role of commercial significance through provision of vital research advancement, workforce training and substantial international links.” Commercial engagement to appropriate the benefits of research requires both freedom to operate and maintenance of competitive advantage, neither of which are served by the unilateral and “open kimono” approach suggested in these recommendations.

While acknowledging that perhaps over 95% of research is already published and therefore freely available, to suggest that this apply across the board is incredulous. Surely the report is not suggesting that the formula for the cervical cancer vaccine should have been placed on the Internet prior to its production? Exploitation of CSIRO IP and IP from universities has resulted in billions of export dollars, jobs, and wealth for Australia that would be imperilled if such a recommendation were made compulsory. However, the argument is more than economic. Because such a move would be unilateral and unlikely to be followed by all competitor nations, it would potentially damage our research organisations’ own freedom to operate should competitors not follow a similar strategy. How is the national interest protected?

RECOMMENDATIONS ON TAX AND INNOVATION

The proposed expanded R&D cash rebate could represent a significant funding source for small companies to replace Commercial Ready. Making available a 50% R&D tax credit for companies with revenue less than $50m and the 40% R&D tax credit for larger companies is welcome. If the company and the IP is "Australian owned" the small (<$50m) company is entitled to a cash rebate equivalent to the R&D tax credit. For early stage small companies, this cash rebate is key as if they are in tax loss they will not otherwise obtain any tax benefit i.e. there would need to be tax payable to be able to offset any R&D tax credit. Accordingly, if a <$50m revenue company in tax loss is not entitled to the R&D tax cash rebate they will miss out. There is even a real risk that the company will not even be able to claim a deduction under the normal deduction provisions if the expenditure is considered to be capital in nature.

However, the paper does not comment on whether the current R&D cash rebate limits should continue to apply. In addition to the $5m turnover limit, under the current section 735 a company cannot claim the R&D cash rebate if it is more than 25% owned by a tax exempt entity or associates e.g. research institutes. Many spin out firms from tax exempt organisations such as CSIRO or research institutes could therefore be excluded from the R&D cash rebate (and the R&D tax credit if in tax loss) if the 25% exempt entity ownership test is retained. Clearly, this is against the national interest.

Similarly, many university commercialisation entities have had their tax exempt status revoked. They now generally use a taxable unit trust directly owned by the tax exempt university to hold shares in the spin off company. Even though the unit trust is taxable they are associates of the university and therefore their shareholding would still count in the section 257 tax exempt ownership test. The stakes under the proposed scheme are much higher. Clarity is required in relation to how it will affect spin offs from tax exempt institutions.
There is also lack of clarity around the intent of the "Australian owned" requirement. This will be directly relevant to many Australian companies backed by venture capital which flip up the holding company to the US to access later round US VC funds.

Although not directly related to early stage companies it is unclear from the report why there is a proposal that larger companies will be able to access the R&D tax credit even if IP is not owned in Australia. Although encouraging the initial R&D to be undertaken in Australia, this activity is at the beginning of the value chain, and the real value (and wealth) is reaped downstream (and offshore). Although Australia's powerful R&D lobby will not argue against such a provision, this could have significant long term impact on royalty and profit flows back to Australia, and (aside from the development of human capital) might work against the national interest.

INTRODUCING MARKET-FACING PROGRAMS

Recommendation 9.1 suggesting a Competitive Innovation Grants Program to address the proof-of-concept funding gap is welcome, but the requirement to repay grants seems quite unworkable, based on the failure of previous loan programs as well as anecdotes from AusIndustry personnel familiar with such programs. What legal action would the Commonwealth take if loans can't be repaid and how would "success" be measured?

The AIC strongly supports Recommendation 9.3, suggesting that a portfolio of collaboration and linkage programs be maintained to support productive partnerships in the National Innovation System. One such program, the voucher scheme suggested in Recommendation 9.4 has merit, although evidence we have from the TechFast pilots with Australian SMEs suggests that such a transactional approach risks ignoring the substantial investment required to first build absorptive capacity in SMEs, and then establish relationships, before such transactions can occur. We suggest the target be reduced to a more realistic 2000 firms per year, with the cost savings directed to support programs such as TechFast which focus on building absorptive capacity and seeding collaborations which can then be consummated through the voucher system.

How will universities fund their interactions with SMEs? There is no reference to Third Stream funding which would enable tangible expression of research in forms recognisable by amenable to use by industry. A $15,000 voucher is unlikely to achieve much.

THE ROLE OF GOVERNMENT AND THE PUBLIC SECTOR AS A "DEMANDING CUSTOMER"

The review quotes (pg 90) Michael Porter's well-known maxim that "demanding customers often drive a culture of innovation and excellence within the industry servicing such customers".

In line with this, we agree with Recommendation 10.6 around using government procurement practices as an innovation lever. A whole of government approach to using the large public sector engine as an innovation driver, both on the demand and supply sides, is required. This can be achieved on the demand side through procurement practices, and measures such as a focus on a National Information Strategy on the supply side.

However, our experience has been that whole of government approaches are difficult to achieve because of entrenched cultures and silos. Similar to TechFast, our experience with the Queensland Government has been that independent intermediaries can encourage collaborations across government silos, and actively facilitate innovation within government.

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