Coalition Senators' additional comments

1.1 Coalition Members of the Senate Economics Reference Committee welcome the interest of the Committee in Australia's innovation system, and particularly the timely nature of the report, given the Government's pending announcement of the National Innovation and Science Agenda.

1.2 Coalition Members particularly note and thank Professor Roy Green, Dean of the UTS Business School, for his valuable input and the contribution he has made to the development of the Government's innovation agenda.

1.3 The Coalition agrees strongly with the Committee on the importance of innovation to Australia. As the Prime Minister has said:

> If we want to remain a prosperous, first world economy with a generous social welfare safety net, we must be more competitive, we must be more productive. Above all we must be more innovative. We have to work more agilely, more innovatively, we have to be more nimble in the way we seize the enormous opportunities that are presented to us. We're not seeking to proof ourselves against the future. We are seeking to embrace it. And this is a Government and a Ministry that has that as its focus.

1.4 The Government is already investing $9.7 billion in science, research and innovation in 2015-16. That said, we can and must do more to allow innovation to unlock jobs and growth in the economy, and so this report is well timed and will contribute to the National Innovation and Science Agenda.

1.5 Coalition Members note the Committee's first recommendation, and agree that stable, coherent and effective administrative arrangements for innovation policies and programmes are important – but this should not be read as an excuse to let policies that are not working to their full potential simply continue to do so. The Government wants a more innovative economy, and part of that is adapting to circumstances and changing as required, and the Government will do that in the implementation of its Agenda.

1.6 We express some concerns about the merits of the Committee's recommendation that the Government commit to a target of increasing R&D spending to a level of 3 per cent of GDP. Until now Australia has resisted the adoption of R&D targeting. The Productivity Commission dismissed calls for Australia to adopt an R&D target in a major study into science and innovation.[1] It pointed out that R&D targeting is conceptually flawed and has a history of failure.

1.7 Targeting an increase in an input measure, such as spending on R&D makes little sense. Like any cost to business its impact on productivity depends on the quality of the spending. As a consequence, Australia has in modern times focussed on output measures — in particular productivity.

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1 PC 2007, pp.561-568 http://www.pc.gov.au/inquiries/completed/science/report/science.pdf

1.8 The most well-known example of R&D targeting is Europe's Lisbon Strategy.

- During the European Council in Lisbon in March 2000, European Union leaders launched a Lisbon Strategy aimed at making the EU the world's most competitive economy by 2010.
- The key element to this strategy was a target that Europe would achieve an average level of R&D of 3per cent of GDP across countries.
- The strategy contained no explanation of how this target would be achieved.
- Almost all countries missed their R&D targets by huge margins.
- By 2010 the EU28 average R&D level was 1.9 per cent of GDP, up from 1.8 per cent in 2000[2], far behind leading countries like the US and Japan.

1.9 Over the same period, Australia — which did not have an R&D target — actually saw its R&D share of GDP rise more rapidly, from 1.5 per cent to 2.2 per cent over the decade.[3]

1.10 Coalition Members note the Committee's second recommendation of the establishment of an independent Government agency with a mandate to administer and coordinate innovation system policy and programs. The Committee will be aware with interest of the recent appointment of Mr Bill Ferris AC as the Chair of Innovation Australia, and the impending release of the National Innovation and Science Agenda which will contain further detail on how the Government will place innovation and science at the heart of decision making. Currently, Innovation Australia sits as an independent statutory body under the Department of Industry, Innovation and Science and has been responsible for the administration and oversight of the Australian Government's industry innovation and venture capital programme, including the R&D Tax Incentive and the Entrepreneur's Programme.

1.11 Coalition Members also note with interest the Committee's third recommendation of policy options to address structural and strategic barriers that inhibit innovation. The Government's Innovation and Science Agenda will outline a raft of measures that will:

- make the Australian economy more creative and agile;
- make it easier for start-ups to raise capital, more attractive for angel investors to invest and;
- encourage greater collaboration between business and research institutions.

1.12 The Committee's report examines important issues surrounding the Government's ability to boost capability and capacity building among businesses and research institutions to promote innovation (discussed below). However, it is important to note that the provision of capabilities, while necessary, is not sufficient

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2 Eurostat 2015, *Gross domestic expenditure on R&D (GERD), % of GDP* http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_20&plugin=1

3 ABS 2012, *8104.0 - Research and Experimental Development, Businesses, Australia, 2010-11,* http://www.abs.gov.au/Ausstats/abs@.nsf/Previousproducts/8104.0Appendix12010-11

for an innovative and productivity economy. Analysis by the Productivity Commission confirms that productivity growth "arises from many small, everyday improvements within organisations to improve the quality of products, service customers better, and reduce costs."[4] In this regard, the Commission highlighted three essential policy "planks" for driving and stimulating innovation — incentives, flexibility and capabilities. While the latter is discussed in the Committee's report the other factors, flexibility and incentives are just as important. For businesses to take full advantage of the provision by government of improved education and R&D policies and capabilities, they also need both an appropriate set of incentives to make the most of these capabilities, and the flexibility to do so.

1.13 Competition is the driving force for economic growth, dynamism and innovation in any economy. The very existence of competition laws recognises this fact. Hence, a substantial weakening of competition invariably extracts a heavy price on an economy, on consumers, businesses and workers. To take one example, the potential dampening role played on the investment plans of small firms or potential new market entrants by the actions of an incumbent with extensive market power must also be considered. Firm entry and exit is an important factor in economic efficiency over time. Indeed, in emphasising the crucial role of competition as providing the first of these planks, the then Chairman of the Commission Gary Banks observed:

> International evidence suggests that it is market competition, rather than government assistance, that is the main driver of innovation and its diffusion throughout an economy.[5]

1.14 The Coalition members agree with the Committee's fourth recommendation, and note that the COAG Industry Committee has already started this important work; in addition to measures to be announced in the National Innovation and Science Agenda. We endorse the importance of development of local and regional innovation ecosystems for regional development. While there is no 'one-size-fits-all' solution, a key precondition for the promotion of a strong and supportive regional innovation ecosystem is infrastructure, in particular, communications infrastructure. Without adequate broadcasting and telecommunications infrastructure, firms and individuals are unable to access the utilities required to participate in the innovation economy.

1.15 The education system is, as the Committee's fifth recommendation notes, the bedrock of our Innovation system. Its importance canvasses all areas – both in the humanities and social sciences, but also in the study of STEM subjects which has been in decline. Again, the Coalition members look forward to the Government's measures in the National Innovation and Science Agenda.

1.16 The Coalition acknowledges that Australia has enjoyed nearly a quarter of a century of uninterrupted economic growth and rapid developments in science and technology are disrupting traditional jobs and industries around the world. It must be

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4 Productivity Commission 2008, *Annual Report 2007-08*, Canberra.

5 Productivity Commission 2008, *The Productivity Challenge and Innovation*, Media Release, 31 October, Canberra.

said that we cannot rely on the old industry and business models if we are to make the most of the opportunities presented by the new global economy.

1.17 The Government's National Innovation and Science Agenda will outline the Government's plan for the future in innovation and science. It will recognise that we must embrace an entrepreneurial and innovative mindset to build an agile economy and create the jobs and industries of the future. A strong innovation ecosystem is one of the key drivers of competitiveness, productivity, economic growth and higher living standards.

1.18 The empirical evidence to support the direction of a national innovation agenda is overwhelming. Innovative businesses play a disproportionately large role in the economy - in 2012-13, only 42 per cent of businesses with at least one employee were innovative. But these businesses accounted for around 70 per cent of total employment, capital expenditure and business income. Further, innovative businesses compare extremely favourably to businesses which don't innovate. They are 31 per cent more likely to grow their income and 46 per cent more likely to report increased profitability; and twice as likely to export and five times more likely to increase the number of their target export markets. The activities undertaken by innovative businesses have the most potential to bring about positive spill-overs, and for every $100 million invested by business in R&D, there is an estimated return between $150 and $200 million to the economy.

1.19 Innovation is critical to Australia. It contributes to productivity performance through the creation of new knowledge and technologies and through diffusion of new processes and technology to firms across the economy. At the most simple level: it creates jobs and growth.

Senator Sean Edwards **Senator Matthew Canavan**