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SUBMISSION FROM COOK MEDICAL AUSTRALIA ON THE INQUIRY INTO AUSTRALIA'S INNOVATION SYSTEM TO THE SENATE ECONOMICS REFERENCES COMMITTEE FOR INQUIRY AND REPORT

I About the Submitter

- a) This submission is made by Cook Medical Australia. We would like the opportunity to appear before the Senate Economics References Committee to speak to our submission.
- b) Cook Medical Australia is a subsidiary of US owned medical device company, Cook Medical, located in Brisbane that has been operating in Australia since 1979. Cook Medical Australia has become a leader in innovation and technology needed to perform in vitro fertilisation and assisted reproductive procedures and is manufacturing facility in the world that produces custom-made stent grafts to treatment of abdominal aortic aneurysms.
- c) Doubling as Cook Medical's Asia Pacific headquarters, Cook Medical Australia employs over 500 people locally and over 1000 across the Asia Pacific region.
- d) In the past 10 years, Cook Medical Australia's export sales has totaled more than half a billion dollars with a majority of these profits retained and re-invested back into the Australian business. Also roughly 90% of the products that are manufactured in Australia by Cook Medical are exported to over 135 countries around the world.
- e) In 2013, Cook Medical Australia was the recipient of the Queensland Premier's Export Award for Health and Biotechnology.

II Overall View

- a) Australia is a forward thinking country that has a strong heritage of innovation. This is reflected by the high number of patents that Australia has generated. Over the past decade, 28,811¹ patent applications have been filed in Australia.
- b) When it comes to fundamental discovery research, Australia is a legitimate and impressive global contributor when considered on a per capita basis, producing three percent of the world's research publications with only 0.3% of the population.
- c) However, translating this strength into products to benefit the Australian innovation ecosystem continues to fall short of expectation.
- d) The INSEAD Global Innovation Index ranks Australia 13th in terms of innovation input and 31st in innovation output, but when these figures are converted to innovation efficiency ratio, Australia is ranked at 107 out of 141 countries assessed. This stark measure demonstrates that Australia is exemplary at facilitating the generation of ideas but poor at commercialising the ideas into products.

¹ IP Australia website, www.ipaustralia.gov.au



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- e) It is our strong contention that innovation and manufacturing are inextricably linked. However, the precarious state of Australia's manufacturing industry, struggling with comparatively high taxes, a strong Australian dollar, high labour and operating costs, is of particular concern for the future of Australia's innovation system.
- f) Compounding this issue, R&D Tax Incentives such as the one Australia implemented are now recognised globally, with 30 countries, including the top 10 global manufacturing countries also offering similar frameworks.

III Response and Recommendations

- a) As the implementation of R&D incentives become more commonplace around the world, a number of Governments have demonstrated that to stay ahead, it is also necessary to incentivise the retention of domestic manufacturing and industry.
- b) There are currently ten countries in the world, including the UK, that have adopted a 'patent or innovation box' style policy with many more looking to introduce similar regimes in the future.
- c) These markets have concluded correctly that a viable industrial sector is the lynchpin of the innovation system, not only as an initiator and incubator of ideas, but also to enable the commercialisation of ideas, whether sourced from the factory floor or discovery research, into products.
- d) We believe to maximise Australia's capability to innovate and to become a knowledge-based economy, there is a need for structural change within policy frameworks to attract business and commercialisation of our innovations back to Australia.
- e) **Recommendation 1: Implement a tax incentive to encourage the commercialisation of IP in Australia**
 - i. Our recommendation to the Inquiry is that consideration is given to the implementation of a 'patent box' style tax incentive for Australia, specifically a model that would provide a reduction in the tax payable on any profits derived from the commercialisation of qualifying IP in Australia (either via licensing or manufacturing and sale of products incorporating qualifying IP).
 - ii. Under this model, which we have termed the Australian Innovation & Manufacturing (AIM) Incentive, qualifying IP profit would be taxed at the lower rate with the standard corporate tax rate to be applied to other income. This would ensure Australia benefits from investment in any R&D by encouraging companies to locate all activity associated with the development, manufacture and exploitation of that IP within Australia, which would support the full spectrum of industry sectors.



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- iii. The AIM Incentive also allows for the future funding for these companies, as profits that are made due to the Incentive can be retained and re-invested giving security to companies for the future.
- iv. The criteria for qualifying IP under the AIM Incentive is extended to patents, copyright, registered designs and licenses. It would ensure strategic international engagement in science, research and innovation as the qualifying IP criteria also includes companies that manufacture products offshore, provided that Australia will derive a significant net benefit from its sales overseas. Qualifying IP can either be developed in Australia or licensed from outside of Australia.
- v. The AIM Incentive would alleviate significant financial pressure on the Australian government by reducing the need for direct subsidies, while ultimately boosting the many benefits derived from an increase in domestic manufacturing and exports, including new investment in innovation to secure high skill, high wage jobs and in turn secure Australia's competitiveness for the future.

f) Recommendation 2: Ensure that support and funding for research has a direct link to industry by providing a solution that incentivises commercialisation

- i. It is unfortunately a common story that as research findings are developed and near commercialisation, Australia loses the IP overseas. Australia supports the R&D phase of innovation and IP creation via the R&D Tax Incentive, only to leave it vulnerable to being sold or manufactured overseas at the critical point. Therefore, the resulting community and economic benefits go with it.
- ii. If IP only remains at an academic level, then it is of limited value to society and does little to nurture a culture of innovation and manufacturing is therefore an imperative way to translate IP to benefit Australia's innovation ecosystem.
- iii. Commercialisation and manufacturing needs to be part of a holistic approach and it is proposed that funding for research should have a direct link to industry. An example is the \$7 co-payment contribution initiative, where \$5 is directed to the medical research fund. A more inclusive strategy would ensure that the contribution also facilitates the commercialisation of a healthcare product or solution, which would in turn benefit all Australians and ensure the maintenance of capabilities across the economy.

g) Recommendation 3: Encourage communication between industry and researchers by hosting case study events

- i. The relationship between advanced manufacturing and a dynamic innovation culture has, to date, often followed trends instead of evaluating what strategies are needed to improve Australia's innovation ecosystem. There is a need for a solution that



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encourages communication between industry and researchers to better understand what is required to support manufacturing for the long term.

- ii. There is an opportunity to host case study events where industry and researchers can interact and share best practice scenarios to encourage communication and interaction. This will for example, help research centres have a better understanding of the reality of commercialisation and the return on investment. Many professors, may have limited business experience, and it may be worthwhile considering incentivising academic institutions and students so they become more commercially focused.

h) Recommendation 4: Complete an assessment of how other markets are successfully developing research pathways for early and mid-career researchers

- i. To provide support and refine recommendations for the research sector, there is an opportunity to conduct an assessment to uncover actual performance about how other countries are successfully developing and supporting researchers. The findings would compare Australia to assess what mechanisms other markets are excelling at, and rate Australia's performance against that.
- ii. It should be considered that Australia is competing against markets where IP is highly valued. In Singapore for example, an IP financing scheme has been implemented to position the country as an IP hub. This could be translated locally so that organisations can use IP as loan collateral for securing further funding.
- iii. Japan, for example, launched The World Premier International Research Centre Initiative in 2007 with the objective of creating an outstanding research environment. The research findings may also for example, reveal that other markets are excelling at providing a system, which encourages mobility between universities, industry and government.

Thank you for considering this submission. We would like to make an oral submission in support of our recommendations, and look forward to any opportunity to appear before the Senate Economics References Committee.

Yours truly,

Barry/Thomas
Vice/President, Director – Asia Pacific and Managing Director of Cook Australia