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FW: Australian Manufacturing Inquiry - further Questions on Notice
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Q. Could you provide some examples of additional R&D tax incentives, or programs, that you think Australia should adopt, including any examples of overseas initiatives that you think might help to improve industry-university collaboration?

A: There are advantages in both strategic innovation, where public support is channelled to identified areas of advantage, and demand-driven innovation, where support goes to genuinely innovative activity on any topic. The former has the potential, if well executed, to coordinate broader government, academic and private activity to unlock opportunities and address key national challenges. The latter has the potential to leverage bottom-up information not yet visible to public sector strategists in order to capture a broader range of opportunities.

This is why Ai Group supports both the maintenance of the current demand-led R&D Tax Incentive, and the use of additional more strategic instruments to support innovation.

There are many options for such instruments and Australia already has some in place. The Co-operative Research Centres program and the Australian Renewable Energy Agency both represent a mix of strategy and bottom up - the Commonwealth identifies priority areas, sets out funding and process, and calls for proposals.

These approaches have been successful and could be extended to additional issue areas; for instance, Ai Group supports broadening ARENA's mandate, and further increasing its funding, to address more clean economy technology and innovation beyond renewable electricity generation.

There are also other models for more strategic innovation policy. Two examples are:

- Prizes. Government can announce financial prizes for the first proponent to reach a defined innovation milestone. Prizes large enough to cover both development costs, risks and an attractive return can be coupled with open access to resulting intellectual property. Examples stretch back at least to the Longitude prize, but also include the largely privately-driven X-Prizes and US proposals on pharmaceutical innovation.
- Procurement. Government can seek to stimulate innovation, and the development of industry capability and capacity, in strategic areas by committing to procure products or services beyond what is already available. This typically involves identifying performance or outcome goals, rather than rigid product specifications, that stretch beyond current capability and would create valuable

spillovers.

It is vital to ensure that there is discipline, quality and iteration in strategic priority setting, whether for existing measures or new ones. It is all too easy for the selection of priorities to devolve into a jumble of vague and overly broad categories; a wishlist of politically convenient hopes without underlying plausibility; or a graveyard of obsolete concepts. It is best to derive innovation priorities from existing national strategic processes that are themselves deeply considered, widely consulted on and regularly updated. For example, the iterative Low Emissions Technology Statement process plays this role for ARENA and the Clean Energy Finance Corporation, though the wider Long Term Emissions Strategy will need further iteration and consultation to play its full part.

In the manufacturing context, the Modern Manufacturing Strategy, the Advanced Manufacturing Growth Centre and the broader Industry 4.0 Advanced Manufacturing Council in which AMGC participates would be good venues for strategic consideration.

Driving greater research collaboration is an important goal - and not just between business and researchers, but also deeper collaboration between businesses. Competition law can complicate intra-sectoral collaboration on issues like product stewardship innovation, where common technologies and infrastructure can ease new practices. Manufacturing has much to gain from research collaboration, but so do other sectors. In short, we don't want to inadvertently create barriers to collaboration while trying to facilitate it.

There are at least two areas for constructive work that would increase university-business collaboration without compromising other sorts.

One involves the business end, by adopting the recommendation of the 2016 R&D Tax Incentive Review for an incentive for businesses to employ recent PhD graduates. This could be achieved either as a sub-element of the R&DTI or as a separate program. The point is to expand the innovation capacity of business, and unlock both incremental and surprising innovation, by making it easier and less risky for businesses to directly employ our most accomplished recent graduates.

The second involves the university end, through encouragement of deeper collaborative relationships. There have already been efforts in this space, with the incorporation of business collaboration metrics to Australian Research Council funding decisions. Universities are also under intense economic pressure and the level of interest in collaboration will doubtless respond. However care is still needed to ensure collaboration is high quality. Using industry-derived revenue as a proxy for collaborative impact is convenient but inadequate. Whether driven by grant rules or revenue shortfalls, revenue-hungry universities may pursue more transactional relationships that forego longer-term value, and seek a level of intellectual property control that dissuades industry participation. Ongoing cultural change in universities and the ARC, and refinement of metrics, should focus on impact and long term relationships.

Finally, the good work of Australia's Innovative Manufacturing CRC on

engagement, research dissemination and [innovation capability improvement in SMEs](#) can be built on, and much of it applied to a wider range of sectors.

Q. Could you expand more on your proposal that Australian Government officials be engaged in providing political risk assessments to potential exporters, and the specific risks that you think this is trying to overcome.

Political risk covers everything from a Coup to regulatory changes that lock out imports from the market. It is the latter that we want more engagement from our diplomatic corps. DFAT and Austrade officials are regularly monitoring Government activity and producing internal reports that may be of interest to Australian businesses and useful in forming either defensive or optimistic strategy. A case in point is India. In recent research of our members into attitudes towards expanding into India, we discovered that many of our members had old views of the regulatory environment in India, completely unaware of the changed environment post the Modi reform agenda. We have encouraged Austrade to improve their communications around introducing 'New India' and are pleased to see that it is part of the AIBX program this year.

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