



February 2023
Senator Jess Walsh
Chair
Senate Economics Legislation Committee
Parliament House
Canberra ACT 2600

Inquiry into the National Reconstruction Fund Corporation Bill 2022 [Provisions]

Introduction

Research Australia welcomes the opportunity to make this submission in response to the National Reconstruction Fund Corporation Bill 2022 (the Bill).

As the peak body for Australian health and medical research and innovation, Research Australia believes the National Reconstruction Fund provides the opportunity to better leverage Australia's world leading health and medical research and create a vibrant and successful medical products industry which propels Australia forward to become a net exporter of medical products.

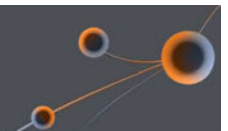
Doing so would provide significant benefits for Australians with more secure access to medical products, better health outcomes and the creation of well-paying jobs and new businesses in a sector that has enormous scope for ongoing global growth.

Our submission seeks to ensure that the NRF is given the opportunity to be as effective as possible in meeting these objectives.

Research Australia supports the National Reconstruction Fund Corporation Bill 2022 and submits the Senate Committee should recommend the Senate pass the Bill, subject to the amendments proposed by Research Australia.

The proposed amendments are:

- require the Ministers to report to the Parliament on how the NRF has complemented other measures by the Government to support research, innovation and manufacturing. (Clause 91)
- require the quarterly investment reports to identify recipients of financial accommodation by name and to specify the priority area to which the financial accommodation relates. (Clause 82)



Context: Government support for innovation overseas

Government support for building innovative industries is growing around the world.

The UK Government's *UK Innovation Strategy: Leading the future by creating it* is building annual public investment in R&D to £22 billion.¹ The Strategy's 'primary objective is to boost private sector investment across the whole of the UK, creating the right conditions for all businesses to innovate and giving them the confidence to do so.'²

Integral to the Strategy is UK's *British Patient Capital*.

British Patient Capital was launched in June 2018 following the publication of the UK Government's Patient Capital Review. Led by HM Treasury, the Review found that whilst the UK provides a fertile ground for innovation to thrive, a lack of access to long-term finance, or patient capital, has prevented some UK companies from scaling up and fulfilling their full commercial potential.

In response, British Business Bank, the government-owned business development bank, created British Patient Capital as a commercial subsidiary, with an initial £2.5bn to invest over 10 years in venture and venture growth capital, which will unlock an additional £5bn of private capital to support UK companies with high growth potential.

Since launch, we have become the UK's largest domestic investor in venture and venture growth opportunities, managing both a funds and a co-investment programme. In July 2021 two new products were introduced, the £200m Life Sciences Investment Programme, and the £375m Future Fund: Breakthrough initiative.³

The US Government also supports its domestic industries with a range of different programs, several of which have recently been expanded by the Inflation Reduction Act of 2022 (IRA). One relevant example which has received additional funding through the IRA is the US Department of Energy's Loan Programs Office, focused on energy and climate change.

The Department of Energy's **Loan Programs Office (LPO)** finances large-scale energy infrastructure projects in the United States.

LPO administers three distinct loan programs, but each offers a similar value to borrowers:

- LPO can provide first-of-a-kind projects and other high-impact energy-related ventures with access to debt capital that private lenders cannot or will not provide.
- LPO can provide flexible, custom financing that helps to meet the specific needs of individual borrowers.
- LPO encourages early engagement and is a valuable partner to applicants throughout the entire lifetime of a project.

To date, LPO has issued more than \$35 billion of loans and loan guarantees for more 30 projects.⁴

¹ UK Government, 2021, *UK Innovation Strategy: Leading the future by creating it*, page 6

² *Ibid*, page 5

³ <https://www.britishpatientcapital.co.uk/about/our-history/>

⁴ <https://www.energy.gov/lpo/about-us-home>

The LPO's mission has similarities with Australia's own Clean Energy Finance Corporation, which is the model for the National Reconstruction Fund.

Key features of the NRF Bill

One of the key features of the Bill is that the Ministers will nominate the priority areas of the Australian economy in which the NRF will invest. Research Australia supports this approach. While the aim is for the NRF to make a return on its investments, there are broader national interests to be considered beyond making a profit, and identification of priority areas supports this. The priority areas proposed by the Government for NRF are broadly the same as the priority areas identified by the previous Government for targeted investment.

The Explanatory Memorandum refers to the following in the Outline of the Bill:

‘...better positioning industry to be ... more resilient against supply chain vulnerabilities. ...making it easier for industry to commercialise innovation and technology, supporting the development of our national sovereign capabilities ... providing finance for projects that add value, improve productivity and support transformation, rather than enabling expansion of business as usual. Investment in these activities will help create secure, high value jobs for Australians and strengthen our future prosperity.’

There are different and potentially competing priorities for investment expressed here.

Supply chain vulnerabilities and sovereign manufacturing capability have become much clearer priorities over the last few years.

As with many products, there have been significant shortages of some medicines during the COVID-19 pandemic. In addition to medicines and the reagents referred to above, these shortages extended to other supplies required by our hospitals and health services. Supply chain vulnerabilities leading to shortages in critical medicines pose a real threat to the Australian population.

The emphasis on **secure, high value jobs and future prosperity** means a ‘standard’ venture capital model of supporting products to commercialisation, at which point they might be licensed to an overseas company, is not good enough. This NRF must be about retaining IP in Australian hands and manufacturing here to address supply chain vulnerabilities and create jobs.

The NRF must be prepared to invest for the long term, through product development and on to manufacturing rather than developing investment strategies which plan an exit via licensing or acquisition of IP by a multinational. There is also a requirement that the NRF's investments are solely or mainly based in Australia (Clause 69). In this regard the NRF differs from the Future Fund, which has a ‘pure’ investment focus.

Research Australia submits that enabling the Ministers to identify priority areas and to provide instructions to the NRF, including the Investment Mandate, are important features of the Bill, enabling it to consider the national interest as well as profitability. In such an environment, striking a balance between Ministerial direction and the NRF's independence in making investment decisions is important, and the Bill achieves this. Research Australia welcomes the prohibition in clause 72 on the Ministers directing the NRF to invest in a specific company or individual.

Medical Products

As the peak body for Australian health and medical research and innovation, Research Australia welcomes the Government's identification of Medical Products as a priority area. Relative to other products, the process from initial research discovery to a new drug, therapy or technology is a long one, commencing upstream with research that leads to a new discovery and flowing downstream through various stages of testing, refinement and regulatory approval to the realisation of a new product which can be manufactured and sold to a customer. Investment in medical products can be costly and challenging but commensurately rewarding.

It is also a sector in which Australia has historically had world leading research and in which significant advances in developing a more mature domestic industry have been made recently. In the last two years:

- The Australian and Victorian Governments have partnered to bring Moderna to Australia's shores to manufacture mRNA vaccines and therapeutics.⁵
- Australia's CSL has continued to invest in Australia with the recent opening of a new plasma fractionation plant, and a start up incubator due to open in its new Melbourne headquarters in 2023.⁶
- The Queensland Government has announced an mRNA partnership with Sanofi.⁷
- BioNTech have chosen Victoria to establish their Asia-Pacific mRNA clinical research and development centre.⁸
- NSW is establishing a first-of-its-kind pilot facility to develop mRNA and RNA drugs and vaccines in partnership with all NSW universities.⁹

This is the environment in which the National Reconstruction Fund is being proposed, and Research Australia believes it has a vital role to play in creating a mature and vibrant domestic medical products industry as a cornerstone of a post-carbon Australian economy.

⁵ <https://www.austrade.gov.au/international/invest/investor-updates/moderna-to-build-mrna-vaccine-manufacturing-facility-in-australia>

⁶ https://www.google.com/search?q=CSL+manufacturing+in+austrlia&rlz=1C5CHFA_enAU930AU930&oq=CSL+manufacturing+in+austrlia&aqs=chrome..69i57.5914j0j15&sourceid=chrome&ie=UTF-8

⁷ <https://statements.qld.gov.au/statements/96732>

⁸ <https://www.premier.vic.gov.au/biontech-coup-more-mrna-manufacturing-research-melbourne>

⁹ <https://www.nsw.gov.au/media-releases/new-96-million-rna-pilot-manufacturing-facility-for-nsw>

Context: Other Australian Government support for R&D

While Research Australia recognises the focus of this Inquiry is the provisions in the National Reconstruction Fund Corporation Bill 2022, we submit it is important for the Committee to consider where the NRF will sit within the range of funding programs provided by the Australian Government. Our focus in this section is on funding for health and medical research and innovation, the area we know best, but many of the observations are also applicable to research and innovation generally.

The existing funding environment for research and innovation is complicated and disjointed, with many gaps and duplication. This leads to lack of continuity of funding, with each grant progressing a research project only to a certain point before further funding must be sought, often leading to a 'pause' in the research, or to the research stalling altogether. Multiple funding schemes operating independently of each other but funding the same types of research can also lead to a situation where separate teams are funded by different funding schemes to undertake the same or similar research, leading to duplication of effort.

A more strategic and streamlined approach to funding health and medical research and innovation in Australia will lead to greater efficiency and improve the capacity of our research to progress beyond discoveries to new products and therapies, better utilising the resources of the NRF.

At the upstream end of the pipeline lies the Australian Government's investment in basic research, primarily through the National Health and Medical Research Council's (NHMRC) Medical Research Endowment Account and the Discovery Program of the Australian Research Council (ARC).

Downstream from this basic research there is a range of different programs and initiatives intended to support research and development at different stages. At the Commonwealth level, the main grant programs include aspects of the ARC's Linkage program, some of the more translationally oriented NHMRC funding programs, the Medical Research Future Fund (including Cureator and the Frontiers Program), the CRC Program, and the Entrepreneur's Program. In the last two years the Trailblazer Universities Program has been added to the mix. The Australia's Economic Accelerator is to be introduced in 2023, providing grant funding to support Proof of Concept experiments and activities where a university has an industry partner.

In terms of government investment rather than grants, the Biomedical Translation Fund (BTF) is a fund created by the Australian Government in 2016 to co-invest with the private sector in medical technologies. The BTF has some similarities with the NRF. The original programme guidelines for the BTF state:

'The BTF Programme policy objectives are:

- to invest in promising biomedical discoveries and assist in their commercialisation.
- by addressing capital and management constraints, to encourage the development of companies which are commercialising biomedical discoveries.¹⁰

¹⁰ Australian Government, Department of Industry Innovation and Science, Department of Health Programme Guidelines Biomedical Translation Fund 3 August 2016, page 3

While the BTF has a focus on encouraging the development of companies there is not an emphasis on Australian manufacturing; evidence of how the priorities have changed since 2016.

The challenge for the Government and the NRF is to identify how the NRF can draw on all these 'upstream' Government activities in a way that helps provide a more streamlined and coherent approach to supporting research, innovation and manufacturing in Australia.

A National Medical Products Industry Plan would bring a new and clear focus to the disparate policy initiatives, funding programs and actions being taken by Commonwealth, State and Territory Governments that support health and medical research, innovation and commercialisation. It would consider how we can better address the unique challenges to commercialising medical products. It would look to the strengths and opportunities of our existing manufacturing capability, and how these can be supported and expanded. It would take a workforce lens to the entire pipeline from research through to manufacturing, to ensure we have the skills and capabilities necessary to deliver the vision. It would help ensure Australia's national security by prioritising manufacturing and skills development in areas essential to our national security.

Many of the components are already in place, and the NRF is soon to be added. A National Medical Products Industry Plan would help better coordinate these existing components, including the National Reconstruction Fund, and identify gaps and emerging opportunities. It would provide a clear focus and goals for Australia's research and innovations sectors and help develop a clear pathway to domestic manufacturing of new and existing medical products. It would help align Australia's national security with the substantial economic benefits of developing a significant, vibrant and innovative medical products manufacturing industry in Australia.

Research Australia submits the NRF Bill should be amended to require the Ministers to report to the Parliament on how the NRF has complemented other measures by the Government to support research, innovation and manufacturing. This could potentially be included as one of the terms of the regular reviews provided for under Clause 91.

Transparency in investments

Clause 82 of the Bill requires the NRF Corporation to publish quarterly investment reports. The information required to be reported includes the amount and type of the financial accommodation provided and the location of the recipient entity's main activities. It does not require identification of the priority area to which the financial accommodation relates. It also does not require the recipient entity to be identified.

This provision in the Bill, like many others, is modelled on the Clean Energy Finance Corporation Act 2012. The quarterly reports provided by the CEFC do not identify the entities to which a financial accommodation has been provided. (The most recent quarterly report by the CEFC is

provided as an attachment to this submission.) The CEFC does, however, selectively provide more detail about its investments, including the identity of the recipients, in press releases.¹¹

There is no apparent reason why the default position should be that the identity of the recipient of the NRF's investments are not disclosed. Disclosure of the identity of the recipient will normally be in the public interest. It may be that in specific instances there are commercial reasons why the identity of the recipient should not be revealed, in which case the NRF Corporation should have a discretion not to identify the recipient, similar to the provisions that exist in clause 83 of the Bill in respect of the publication of reports by the Ministers.

Research Australia submits that Clause 82 of the Bill should require the quarterly investment reports to identify recipients of financial accommodation by name and to specify the priority area to which the financial accommodation relates.

If there are reasons why the identity of a recipient is considered commercial in confidence and should not be published, the NRF Corporation should have the discretion to not identify the recipient and instead provide an explanation of this decision in the investment report.

Conclusion

Research Australia welcomes the introduction of the National Reconstruction Fund Corporation Bill and the current Senate Inquiry into the Bill's provisions.

We are supportive of the NRF as a measure which can help transform Australia's economy, and of the Government's identification of medical products as a priority area. The amendments we have proposed to the Bill aim to improve the way the NRF interacts with other Government support for research and development, and to enhance transparency and accountability of the NRF Corporation's decision making.

Research Australia would be pleased to be of further assistance to the Committee; please contact [REDACTED] if you have any questions or require further information

Nadia Levin
CEO & Managing Director

[REDACTED]

www.researchaustralia.org

384 Victoria Street

Darlinghurst NSW 2010

¹¹ See, for example the press release regarding an investment in Hysata in 2021 <https://www.cefc.com.au/media/media-release/cefc-makes-first-hydrogen-related-investment-alongside-lead-investor-ip-group/>

ABOUT RESEARCH AUSTRALIA

Our vision: Research Australia envisions a world where Australia unlocks the full potential of its world-leading health and medical research sector to deliver the best possible healthcare and global leadership in health innovation.

Our mission: To use our unique convening power to position health and medical research as a significant driver of a healthy population and contributor to a healthy economy.

Our role:

Engage

Australia in a conversation about the health benefits and economic value of its investment in health and medical research.

Connect

researchers, funders and consumers to increase investment in health and medical research from all sources.

Influence

government policies that support effective health and medical research and its routine translation into evidence-based practices and better health outcomes

Established with the assistance of the Federal Government in 2002, Research Australia is the national alliance representing the entire health and medical research (HMR) pipeline, from the laboratory to the patient and the marketplace. Research Australia works to position Australian HMR as a significant driver of a healthy population and a healthy economy.

This document and the ideas and concepts set out in this document are subject to copyright. No part of this document, ideas or concepts are to be reproduced or used either in identical or modified form, without the express written consent of Research Australia Limited ABN 28 095 324 379

Attachment- CEFC Quarterly Investment Report

Page 1

Quarterly Investment Report: 31 December 2022



This report is provided in accordance with the requirements of section 72 of the Clean Energy Finance Corporation Act 2012 concerning the Corporation's investments for the quarter ending 31st December 2022.

Investments

DATE	FORM OF INVESTMENT	VALUE (\$MILLION)	LENGTH OF INVESTMENT	EXPECTED RATE OF RETURN (%)	PLACE
21 October 2022	Follow-on equity investment to commercialise a molecular recycling technology, via the Clean Energy Innovation Fund.	\$5.0m	~10 years	>10%	NSW
27 October 2022	Debt funding for a portfolio of renewable energy and storage assets.	\$75.0m	5 years	6.2%	Australia-wide
16 November 2022	Mezzanine debt funding in a securitisation warehouse to support the uptake of zero emission electric vehicles.	\$20.5m	9 years	6.6%	Australia-wide
23 November 2022	Debt funding for the construction of a utility scale wind farm.	\$175.0m	8 years	7.2%	VIC
6 December 2022	Equity investment into a private equity fund to decarbonise target investments.	\$80.0m	12 years	10.0%	Australia-wide
7 December 2022	Follow-on equity investment into a company commercialising a lithium processing technology, via the Clean Energy Innovation Fund.	\$5.9m	~10 years	>10%	NSW

Page 2

DATE	FORM OF INVESTMENT	VALUE (\$MILLION)	LENGTH OF INVESTMENT	EXPECTED RATE OF RETURN (%)	PLACE
8 December 2022	Follow-on equity investment into a provider of low emission light electric vehicles and ancillary services, via the Clean Energy Innovation Fund.	\$7.5m	~10 years	>10%	NSW
16 December 2022	Debt finance for the construction of a utility scale solar farm.	\$100.0m	5 years	4.7%	NSW
21 December 2022	Debt finance for the construction of energy efficient residential properties under an aggregation program with a major residential property loan financier.	\$125.0m	7 years	4.5%	Australia-wide
23 December 2022	Follow-on equity investment into a soil carbon technology company, via the Clean Energy Innovation Fund.	\$9.3m	~10 years	>10%	NSW

Notes

Reporting Period This report covers investments contracted by the CEFC in the quarter ended 31 December 2022. Funding of an investment may take place in one or more quarters, including the period in which the investment is reported and/or subsequent quarters.

Expected rate of return is expressed as an annualised average rate of return and includes projected loan interest and fee income from the investment and forecast capital growth and cash yield for equity investments. Projections and forecasts are based on assumptions made at the time the investment is committed, and as such are indicative only, given variables such as the potential for material movement in assumptions between the time of contractual and financial close, establishment fees and costs, floating rates, penalty fees, early repayment fees, capital growth rates for equity investments, etc.

Returns have not been adjusted for positive externalities or public policy outcomes associated with the investments.

The overall performance of the CEFC Portfolio will likely differ from an individual Investment Report and will be impacted by other factors including cash deposit rates etc.