



BUSINESS COUNCIL OF AUSTRALIA

Submission to the House of Representatives Standing Committee on Science and Innovation - Inquiry into Business Commitment to R&D in Australia

The BCA has as its objective to foster a vigorous and competitive economic environment capable of supporting national social objectives. It is clear that innovation and R&D have an important role to play in achieving this objective.

There is widespread recognition that the nature of production is changing rapidly and will continue to do so. Production is becoming increasingly knowledge driven and innovation is a crucial driver of long term productivity and income growth.

It is against this backdrop that we must continue to assess Australia's innovation performance with a view to ensuring that the structures and support for higher education, research, and commercialisation are appropriate.

In our view, the benefits of business expenditure on R&D (BERD) are clear. In fact, the high social rates of return that have been widely reported in economic literature and research underpin the policy challenge and debate evident in the questions raised by the Inquiry.

One of the key challenges, in terms of achieving higher business expenditure on R&D, is that firms are unable to capture the full returns of their investment in R&D. The positive external benefits that flow from business R&D, and by all accounts the social rates of return are high, mean that left to its own accord business expenditure on R&D will fall short of socially desirable levels. There will be under-investment, which in turn will undermine Australia's growth potential. In other words, there is a market failure. This means that there is a strong case for public involvement in R&D.

The BCA considers that there are two broad areas that underpin the weaknesses emphasised by the Inquiry's questions, which require further consideration and attention. These are the adequacy of incentives available in support of BERD, and issues relating to the incentives for commercialisation of research and ideas. The issue of better aligning business and higher education interests also remains an ongoing challenge.

Encouraging BERD

As noted above, R&D and innovation are a source of productivity and growth. For individual businesses R&D and innovation can be a source of competitive advantage and new business opportunities. In short, if the business case is strong enough,

businesses will spend significant sums on R&D – but the social benefits of their investment need to be supported.

There are a wide range of factors that influence R&D expenditure decisions. While some of these factors, such as the importance of proximity to key inputs and/or markets, are realistically very difficult to influence through policy, the reality is that incentives can impact on R&D decision making. Against the background of the high private and social rates of return on R&D, the BCA considers that the adequacy of incentive currently available for businesses undertaking R&D need to be given further consideration.

The BCA recognises that *Backing Australia's Ability* marked an increased commitment from the Government and an effort to redress the 1996 wind back in incentives. That said, it is not clear that the combined impact of the announced policy changes provided much in the way of additional incentive. In addition, it needs to be acknowledged that frequent changes in taxes, subsidies, compliance requirements and the like can undermine efforts to induce higher BERD. While not directly relevant to the BCA's membership, the recent experiences with the R&D Start Program are worth considering in this context. And, for some, the 1996 winding back of R&D concessions is still well remembered.

Commercialisation Incentives

The BCA also continues to have concerns regarding the incentives for public research institutions to do commercial research. Australia needs to improve the rate at which new ideas are translated into commercially successful products and services.

Public research institutions prefer to try to hold onto intellectual property. They have little incentive to do commercial research and remain too cautious in terms of commercialisation of ideas and spinning off new research ventures. The incentives for individuals to take the risks involved in spinning off ideas are not adequate. Incentives need to be changed so that they ensure public research institutions actively promote intellectual property spin-offs and stronger personal incentives to motivate the entrepreneurial instincts of researchers are needed.

Conclusion

According to the recently released ABS statistics, BERD rose by just under 20 per cent in 2000-01, reversing falls in the previous three years, and taking expenditure (in nominal terms) to its highest level. While this is welcome, it is important not to read too much into one observation. And, in real terms, the story is not as positive, with expenditure still 5 per cent below its peak level of 1995-96 notwithstanding the strong growth in GDP that we have seen since.

If Australia is to continue to sustain strong economic growth and aim to outperform our peers in the global economy, there must be a strategic, sustained actions to ensure that the structures supporting R&D are capable of delivering a desirable level of R&D spending.