

Innovation Australia

The Committee Secretary
House of Representatives Standing
Committee on Economics
PO Box 6021
Parliament House
CANBERRA ACT 2600

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Australian Government

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Industry, Science and Research
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Dear Committee Secretary

On behalf of Mr David Miles AM, Chairman Innovation Australia, thank you for the opportunity extended to the Board to provide a submission to the House of Representatives Standing Committee on Economics Inquiry into raising the level of productivity growth in the Australian economy.

By way of background, Innovation Australia is an independent statutory body established to assist with the administration and oversight of Australian Government industry innovation and venture capital programs delivered by the Department of Innovation, Industry, Science and Research. The programs administered by the Board are primarily focussed on supporting technological innovation and its commercialisation, involving Australian and, to a lesser extent, internationally sourced research and development (R&D).

The Board's responsibilities provide it with the scope and data to study issues, opportunities, trends and performance relating to industry research, development, innovation and venture capital, and enable it to research and undertake studies on a wide range of issues. In performing its role the Board aims to increase the economic return to Australia from successful technology-based enterprises by guiding the Australian Government's investment in the commercialisation of the nation's research and development and innovation. These are fundamental to increasing productivity.

Innovation Australia works closely with the Department of Innovation in key areas of its work, including most notably in relation to the development, implementation and review of initiatives supporting business innovation. The Board has been consulted in relation to the Department's submission to the Inquiry and fully endorses the views expressed within.

As noted in the Department's submission, building the innovation capabilities and performance of Australian firms, particularly small to medium enterprises (SMEs), has been identified within the Government's innovation statement, *Powering Ideas: an Innovation Agenda for the 21st Century*, as an area of enhanced focus.

Innovation Australia supports this emphasis. It has been the Board's experience that government investment in initiatives designed to enhance the innovation and commercialisation capability of firms, results in significant economic and productivity returns to the community. A number of the Board's programs including the Commercialising Emerging Technologies (COMET) and venture capital programs, include in their objectives, to develop within firms the range of financial, managerial and commercialisation skills required to exploit technology-based business opportunities.

The COMET program is a competitive merit-based grant program focussed on improving the commercialisation outcomes of micro companies by addressing market failures of information asymmetry

together with the equity gap. Amongst other things, the program assists such companies, through personalised mentoring, to develop critical management and commercialisation skills and to raise capital.

An independent evaluation of the COMET program in 2007 (ACIL Tasman) found that it has been effective in improving the ability of the majority of its customers to commercialise their innovations. Prior to participating in COMET, only 15% of customers rated their commercialisation skills as good or very good, compared with 76% after participating in the program. The program has also secured a very high efficiency ratio - for every one dollar of public sector assistance, private sector investment funds of six dollars have been raised by companies/customers. The Board is not aware that any other program can report such an outcome.

Similarly, the venture capital programs administered by Innovation Australia play an important role in stimulating technological innovation and supporting capability building in both high growth firms and capital markets. A key objective of venture capital programs such as the Innovation Investment Fund and Pre-Seed Fund is to expand risk capital investment skills, which are an essential component of a viable venture capital market into the future. The higher the quality of skills of fund managers in the market the greater the sector opportunity to achieve high rates of return and this will leverage private capital investment.

Venture capitalists experienced in commercialisation of research and the development of sustainable businesses are better placed to provide high growth firms with management and technical advice to develop the commercial potential of their technology and produce competitive global firms providing jobs and long term benefits to the Australian economy.

As a final point, Innovation Australia would like to specifically address clause (h) of the Inquiry's Reference - the level of resources devoted to research and development.

Innovation Australia welcomes the range of initiatives and increased funding announced as part of the *Powering Ideas* innovation statement to support innovation. Government support in areas such as business mentoring, tax incentives and financial support (through grants and venture capital programs) are critical levers to overcome market failures that discourage private investment in high risk/high potential firms.

Studies in developed economies have revealed that for every dollar spent on research, it takes approximately \$100 to develop the concept, to take the innovation to market and to realise a profit thereby contributing to growth in the economy. This figure is significantly higher in sectors such as the pharmaceuticals and biotechnology, which require considerably longer lead times to market.

Experience has shown that government funding provides leverage for the development of the venture capital market in relatively small countries such as Australia as it stimulates additional private investment in commercialisation funds. The Board considers there is ongoing need for such funding programs, particularly to support highly risky activity to demonstrate proof of concept. The capacity of Australian SMEs to take research and innovation to market may be diminished without access to funds which drive knowledge application.

Innovation Australia would be pleased to expand on its comments at a public hearing of the Standing Committee if required. The Innovation Australia Secretariat can assist should you wish to contact the Board. The contact in the Secretariat is Ms Lucy Ball, Assistant Manager, telephone 02 6213 7766.

Yours sincerely



Ken Windle, Member Innovation Australia
on behalf of

David Miles AM
Chairman