

Vmda (INC)

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The Inquiry Secretary
House of Representatives Standing
Committee on Science and Innovation
R1 Suite 116
Parliament House
CANBERRA ACT 2600

Dear Sir /Madam

Submission to Inquiry into Business Commitment to R&D

The Veterinary Manufacturers and Distributors Association (VMDA) represents Australian-owned and multinational companies manufacturing and distributing animal health products. Among its many objectives, it provides representations to Government.

In response to the Committee's call for submissions on R&D the VMDA provides the following comments.

The VMDA considers that there is a need to produce new and competitive animal health products and through R&D seize technological opportunities to advance or at least maintain the industry's competitiveness in the market place both domestically and in the export market.

The animal health market in Australia is estimated to be worth some \$550 million per annum. As a rule of thumb, a reasonable level of expenditure on R&D is about 10% of sales or \$55 million per annum. The VMDA believes that the level of expenditure on R&D in the animal health industry is considerably less than that. One of the reasons for this is that there is insufficient Government incentive for such investment. Certainly, the current level of tax deductibility of 125 % is too low to be regarded as an incentive for our industry to invest more in R&D.

Other perceived impediments to greater R&D, generally, in the long term and which may not be within the purview of inquiry are reduced access to Government/University research establishments and reduced Government commitment to science education leading to too few science graduates/postgraduates.

Turning to particular issues, the animal health industry, both in Australia and overseas, is driven by compliance and consumer issues and this has resulted in non-technical trial

expenses having driven the actual cost of conduct of research up. One of our Association's member company has provided an example of a simple field trial which was undertaken during 1996 for AUS\$4,600.00 was recently re-quoted to the same client at AUS\$9,600.00 – an increase of 109%. Increase in the actual daily fee rate during this period was only 16%. The technical output from each of these studies was identical.

One way to assist companies handle this trend is for the Commonwealth Government to acknowledge this swing on actual expenditure. A significant part of any company's research budget is now being spent on issues, which directly address society and consumer values rather than good science in product development. As such the reinstatement of taxation benefits or even the introduction of further depreciation categories within the taxation system is suggested.

Further, the above-mentioned company undertakes a significant amount of work for companies located off shore. These are companies either undertaking a development program within Australia for eventual Australian registration OR undertaking development within Australia (taking advantage of the various benefits) and using this information for overseas registrations.

Original research work for several Europe based companies (England, Ireland, Netherlands, France and Belgium) as well as companies based in North America and China is conducted in Australia. With increasing acceptance of similar/standardised registration requirements across the major countries including Japan, United States and Europe, the conduct of research by multinational companies in Australia makes a lot of sense. Advantages include foreign exchange earnings, technical expertise and quality improvements.

Commonwealth Government support of this genuine export earner would return significant value for Australia. As an example, there is in place the technical expertise, the quality assurance program, the access to research facilities and the business environment to grow this area.

RECOMMENDATION

- In order to give incentives to increase R&D expenditure by companies in the Australian animal health industry VMDA seeks *expanded* Tax concessions for genuine Australian R&D. Restoration of 150% R&D Tax concession increasing to 200% for incremental R&D expenditure over prior 3-year average outlay.
- Given the expanding cost of R&D in non-technical concerns for veterinary and animal health companies, VMDA seeks that the regulatory and bureaucratic hurdles to product registration be *minimized* (i.e. National Registration Authority/ AQIS barriers).
- In order to increase our exports of our R&D VMDA seeks improved access for export of Australian developed technology.

Yours faithfully

N Sammons
President