

## SUBMISSION NO 2

Dear Sir,

With reference to this topic, I can advise you that our company has been actively involved in R&D for the past 25 years and I am the inventor of seven Australian patents directed at improving productivity in the mining industry. In addressing your Inquiries items of 'particular consideration:-

### **1) - the R&D drivers in small and medium sized business;**

The main driver has to be economic. If a company cannot negotiate the very high risks inherent in R&D activity without the promise of unusually high economic reward, there is every probability that the R&D effort will not be under taken in the first place. To safeguard a company's economic reward there must be private investment in Intellectual Property and a government regime that recognises the commercial imperatives inherent in the various intellectual property facilities.

From a government perspective it is worth noting the following:-

- a) The high risk taken by R&D companies must be respected and recognized by all levels of government as being in Australia's best long term interest.
- b) Governments should then ensure a bipartisan approach is taken with regard to all aspects of public funding issues associated with R&D. These include taxation concessions, and grant allocation. One of the main impediments to private R&D is the ever changing government initiatives on the subject. These range from regarding R&D investments as tax lurks to regarding R&D concessions as a budget balancing variable, to regarding it as the essence of "The Clever Country". The reality is that effective R&D needs to be conducted in an atmosphere of consistent policy and positive public recognition. Policy should consistently reflect these needs.
- c) The Government "take" on R&D should be eliminated. Currently, the annuity holding charges exacted by the Federal Government compounds at an average rate of 18.1 % pa! There is gross hypocrisy in supercharging the patent annuity charge without there first being any commercial return to the patent holder. There is also no reason to apply these charges as the government "Take" should come through increased company tax returns following the successful commercialisation of the product.
- d) There is a positive discrimination against small business and Trusts when it comes to R&D concessions. Investments greater that \$50k are required before a tax concession is eligible and trust companies are not eligible. This excludes the greatest arena of innovative thinking this country has to offer - namely the small independent operator who frequently crystallizes the first step in innovative thinking.
- e) In controlling the use of public funds for assisting in R&D and for raising the profile of Intellectual Property, government should require that a patent application in good standing, or a granted patent be in place before processing an application for R&D concessions.

### **2) - the needs of fast-growing companies;**

Fast growing companies need ready access to funding and resources frequently mortgaging future revenues to achieve the growth. In this environment regulatory

certainty is a critical necessity to offset the many normal market vicissitudes which are generally beyond the control of governments.

There is, however, one glaring short coming in almost every government R&D incentive package. This is the general lack of specific recognition for the need of a prototype product. The asset treatment of any R&D hardware is either non existent or complicated by a morass of regulation that seeks to avoid the contention that public funds were used to materially assist in the commercial development of a private business. There needs to be clear government recognition that desk studies are usually the start of R&D not the product, and that the physical product in its various stages of Mark developments is an integral and essential part of a successful R&D profile. Without Mark development stages, R&D investigations usually get pigeon holed. There is a need for physical development products to be easily accounted for in a simple write-off procedure that facilitates the construction of better models - not impedes them. To this end, there needs to be incentive packages or grants that are staged through to commercialisation, but contingously dependent on the success of the preceding stage of R&D.

### **3) - the considerations by which major international corporations site R&D investment,**

These are usually commercial considerations, but which indirectly encompass;

- availability of an educated workforce.
- consistent and encouraging government policy initiatives.
- ready access to resources including land, buildings, and services.
- competitive commercialisation taxation considerations.
- low sovereign risk environment.
- ethical business environment.

However, the main impediment to major international corporations investing in R&D is an internal conflict of business ethics. The usual large corporation intrinsic ethic is "shape up or ship out". This is in direct conflict to a successful corporate R&D business ethic which must be "it is OK to be wrong". Most corporations are unable to accommodate both standards of corporate behavior simultaneously, and settle exclusively for the former option.

One large international mining company recently confessed to terminating their R&D programmes because "they found it easier to let the small companies do R&D and then pick up the bits they liked after the commercialisation stage."

This attitude is sometimes converted into deliberate frustration of innovation. My company has had two experiences where a large corporation has 'over pegged' some of our intellectual property with another patent only to withdraw their application at the last possible moment before the conflict entered the public arena. This tactic was aided and abetted by the government IP regime which is slow to review disputes (in one of the two case it took 5 years to resolve) and non committal when it comes to providing mechanisms to expedite the resolution of such conflicts. While these instances proved frustrating and expensive, the big cost is the national lost opportunity value of the invention.

### **4) - What would be the economic benefit for Australia from a greater private sector investment in R&D?;**

The improvement would be in higher GDP growth and a higher standard of living for all Australians and populations generally. One can look back on the Japanese post war successes and recognise that a large part of their economic miracle can be put down to

an open national embrace of R&D. One can only image what place the UK would now occupy in the economic world if they had similarly embraced R&D at that time - given their previously more advanced position with regard to education, finance and corporate maturity.

In Australia, we have particular talents that are of international significance - in the fields of primary industry and biotechnology. There are obvious export potential and balance of payment benefits in successfully commercialising our domestic IP.

**5) - What are the impediments to business investment in R&D?;**

In Australia, the main impediments are founded on a long period of lack of national recognition of the importance of R&D to our society. Our sports heroes or artists often gain instant recognition while our technologists are usually inconspicuous. This feature is evident in our various honors lists, 'Australian of the Year' and similar opportunities for national recognition.

**6) - What steps need to be taken to better demonstrate to business the benefits of higher private sector investment in R & D?**

The quickest results will come from a hip pocket impact through well directed and enduring taxation relief.

The aims would be significantly enhanced by various forms of public recognition - an arena in which large corporations are particularly receptive. Possible examples could be 'The Prime Minister's Eleven' of Australia's most notable technologists, or the Large Corporation Award to the company that most assisted an inventor to commercialise their product.

Regards

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