

Riding the Innovation Wave – June 2003

This report is the result of an inquiry held over the last 12 months by the House of Representatives Standing Committee on Science & Innovation.

The underlying contention is that businesses, both large and small, need to be encouraged to undertake more research & development.

The enquiry found that in Australia about 1.5% of GDP is spent on research & development each year with businesses contributing about half of this effort. Government and Higher Education institutions do the balance of the R&D at about equal amounts – Higher Education being slightly ahead on 0.41% of GDP with Government on about 0.35 % of GDP.

For the sake of completeness it should be noted that the Government's contribution is understated in this analysis. This is for two reasons

- the first being that Government grants to business or Higher Education for R&D are reported in those two categories, not as Government expenditure.
- the second hidden factor is that tax concessions are not recorded in any of the above figures.

Australia is behind a number of other countries in the OECD when it comes to business expenditure on R&D. The report shows that business expenditure on R&D in OECD countries ranges from 2.84% of GDP to 0.25% with Australia sitting on 0.72%.

At the same time the World Economic Forum has ranked the competitiveness of 75 countries by using a number of different factors. In this ranking Australia is

- 6th in terms of tax credits for R&D in business,
- 8th for subsidies for R&D in business
- but 23rd for business spending on R&D and
- 35th for business innovation.

Despite the above data the most common, or most often repeated, plea, from the larger enterprises giving evidence, boiled down to - send more money – essentially a call for greater tax incentives.

This contrasted markedly with the evidence from smaller enterprises. Their evidence was that the tax and grants regime meant little to them for reasons I'll talk about a little later.

The other point made frequently by both large and small enterprises was that access to a reasonably large market was critical to R&D – a reasonably sized market means access to overseas markets. So attention to export opportunities is critical to quality R&D.

SME's also noted that they are often, or even usually, denied access to the large Government procurement market; and that efforts are needed to open up Government purchasing to allow SME's access to this market.

It is clear through evidence we received, and also through discussions I have had with SME's in my electorate, that tax concessions and government grants are of limited use to SME's. We heard about "glass hurdles" that exist for SME's trying to access government grants.

One of these hurdles is the paper work. Many SME's don't have the administrative resources available to them to prepare the extensive reports that are required in advance of any flow of government funds.

We heard that the paperwork associated with a R&D application is seen as a built in bias towards larger organisations.

The second "glass hurdle" is the lead time required to access government funds.

We heard that for many SME's situations develop quickly which require solutions to be found within tight time lines. These tight time lines do not allow the SME to apply for and receive R&D funds.

During the inquiry we heard evidence from many different organisations who took the time to come to Canberra to talk to us. It became clear however that we were not getting evidence from small or medium sized companies.

It was important to us that SME's got the chance to give evidence and as they were not coming to Canberra – probably because they were too busy at the coal face - we decided that we'd go to them; and that we'd be available at a time that suited small businesses.

So we organised three round tables especially for SME's. We travelled to Adelaide and Brisbane on the one day and also managed to fit in a teleconference to a number of SME business people assembled in Melbourne for the purpose.

These round tables proved to be very useful and I want to put on record my thanks to those who participated.

Representation at the Melbourne teleconference was very ably organised by

- Steve Chapple, the Economic Development Manager at Frankston Council and
- Suzanne Ferguson, the Economic Development Manager at Kingston Council.

I would like to thank those who participated in that round table too – unfortunately time doesn't allow me to name them all today.

I also want to put on record my appreciation for the work done by the Chair of this Committee and also by the Secretariat – the inquiry was conducted over twelve months and it is a credit to the commitment of these people that the report has been prepared in such a complete and timely way.