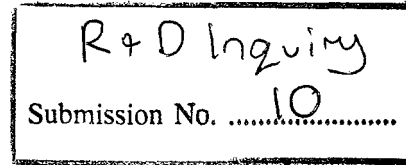


1 August 2002

Mr Gary Nairn, MP  
Committee Chair  
House of Representatives Standing Committee  
on Science and Innovation  
R1 Suite 116  
Parliament House  
Canberra ACT 2600



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Dear Mr Nairn,

**Re: Inquiry into business commitment to R&D in Australia**

The Australian Industry Group welcomes the recently announced inquiry into business research and development (R&D) commitment. The inquiry will address a number of important issues crucial to lifting the performance of private R&D activity in Australia. Recent data released by the Australian Bureau of Statistics showed that despite some improvement, R&D effort among Australian businesses remains below that of most other OECD countries. Furthermore, Australia continues to fall further behind advances made by other countries. This is an issue that must be addressed as a matter of priority, given that R&D activity is a key driver of sustainable economic growth.

Recognising the importance of R&D investment to the health of the domestic industry, lifting business R&D activity has long been a key policy objective for Ai Group. Ai Group has made several notable contributions to the R&D policy debate in recent years.

Ai Group was a key sponsor and participant in the National Innovation Summit in February 2000, conducted in order to enhance Australia's competitiveness and economic growth through innovation. The Summit and the subsequent recommendations of the Implementation Committee, resulted in a number of initiatives aimed at creating an innovative culture and generating new R&D ideas, issues that Ai Group has vigorously pursued.

The introduction of the expanded R&D Start program (announced under the Federal Government initiative 'Backing Australia's Ability' in 2000) followed intense lobbying of the Federal Government by Ai Group to provide a necessary boost to business R&D activity. Since its implementation the program has resulted in many R&D success stories within Australia across a variety of industry sectors. It is therefore regrettable that funding approval under the program has been delayed due to allocated funds being exhausted.

Ai Group also led the push for a premium tax concession aimed at providing a further stimulus to increased R&D activity, which was implemented in the form of a 175% R&D premium tax concession in 2001.

During the Inquiry into the Taxation Laws Amendment (Research and Development) Bill 2001, Ai Group played a major role in persuading the Government to amend proposed changes to the definition of R&D activity on the grounds that it excessively narrowed the scope of eligible R&D and would limit the effectiveness of the tax concession. This recommendation was included in the Ai Group submission to the inquiry, which was aimed at ensuring maximum benefits from R&D assistance were delivered to Australian industry.

In addition to its role as a key contributor to the R&D policy debate, Ai Group has conducted extensive research on business R&D activity in Australia, which has helped to ensure that informed decision making concerning R&D issues can take place.

Ai Group has released several fact sheets aimed at increasing awareness of R&D issues among Australian industry. I have enclosed a copy these for your information.

In August 1999 Ai Group released "Research & Development", an examination of trends in R&D expenditure in Australian manufacturing. This report contains a number of important findings relevant to the current inquiry including:

- The main reason driving increased R&D expenditure is the need for product development to expand markets and enhance competitiveness.
- Reductions in the tax concession (from 150% to 125%) had a negative impact on R&D activity among businesses.
- Profit pressures were the most significant factor leading to reduced R&D.
- R&D effort is not related to business size.
- The Australian regime of R&D tax concessions (at the time of the survey) did not appear to offer sufficient positive incentives to influence R&D decisions.

I have enclosed a copy of the report for the information of the inquiry. Ai Group is planning a similar survey of business R&D activity to be conducted in August 2002, the results of which will be available in late September. While submissions for the inquiry are due by 30 August 2002, Ai Group would welcome the opportunity to present the findings of the R&D survey to the Committee at its public hearings in late September.

I will await your advice on the above. If you wish to discuss the upcoming Ai Group survey of R&D activity, or the enclosed fact sheets and R&D report, please contact me on (02) 94665505.

Yours sincerely,



Heather Ridout  
Deputy Chief Executive