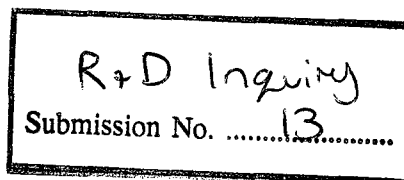




**Australian Business  
Foundation**



21 August 2002

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

**Re: Inquiry into Business Commitment to Research and Development in  
Australia**

Dear Sir/Madam,

Please find attached the Australian Business Foundation's response to the Standing Committee on Science and Innovation Inquiry into Business Commitment to Research and Development in Australia.

The Australian Business Foundation is an independent private sector research think tank specialising on innovation, new forms of business competitiveness and opportunities from the knowledge-based economy. The attached response to this Inquiry is drawn from research commissioned by the Foundation into issues affecting Australia's future business competitiveness, prosperity and jobs.

The Australian Business Foundation appreciates the opportunity to respond to the Terms of Reference and looks forward to hearing the outcomes of this Inquiry.

Yours sincerely

Narelle Kennedy  
Chief Executive



## **Australian Business Foundation**

### **House of Representatives Standing Committee on Science and Innovation**

#### **Inquiry into Business Commitment to Research and Development in Australia**

#### **Response to the Terms of Reference**

The Australian Business Foundation is an independent, not for profit private sector think-tank funded and sponsored by the leading industry organisation, Australian Business Limited. The interest of the Australian Business Foundation in the Inquiry into Business Commitment to Research and Development in Australia stems from the mission of the Foundation—to conduct and disseminate ground-breaking research that advances knowledge and fosters new thinking and best practice on Australia's competitiveness, prosperity and jobs.

The best contribution the Australian Business Foundation can make to the Committee in response to the Terms of Reference is to draw to the attention of the Committee key findings from the research of the Australian Business Foundation into the impact of multinational corporations (MNCs) in Australia and the role of MNCs in the development of business enterprise R&D.

These findings are derived from the Foundation-commissioned study, *Friend or Foe? Leveraging Foreign Multinationals in the Australian Economy* by Dr Lyndal Thorburn of Advance Consulting and Evaluation Pty Ltd, with Dr John Langdale of Macquarie University and Professor John Houghton of John Houghton Consulting. This report provides information on the degree to which multinational corporations (MNCs) influence, either positively or negatively, the growth, capacity and skills of Australian firms. Specifically, the study explores how the interaction between MNCs and local firms affects Australia's capabilities and critical mass; global reach; and skills and knowledge.

The authors conclude that multinationals operating in Australia give more than they take, but the relationship is fragile and tenuous. Consequently, local businesses and policy makers must get smarter to maximise the benefits of multinationals, particularly Australia's access to global knowledge and skills and stronger participation in the delivery of global products and services.

In a consideration of the reasons by which major international corporations site R&D investment and of the impediments to business investment in R&D in

Australia, the following key findings from *Friend or Foe? Leveraging Foreign Multinationals in the Australian Economy* are relevant:

- MNCs now control a large proportion of the world's scientific and technical resources. MNCs also increasingly access the knowledge resources in different countries, making them important players in both sectoral and national "systems of innovation".
- There has been a general rise in the R&D intensity of foreign subsidiaries in manufacturing in the last 10 years. The location of this R&D is influenced by the national technology strengths of the host economy.
- Although foreign firms undertake substantial investments in R&D, this R&D is not necessarily undertaken locally. MNCs rely heavily on technology derived from their parent corporations and in-house R&D.
- Once in a country, the outsourcing of R&D to local suppliers by MNCs is essential to a country harnessing the full potential of an MNC and creating innovation within the country.
- Governments with low levels of domestic business R&D and high reliance on foreign MNCs have implemented policies to encourage foreign subsidiaries to undertake R&D locally. Particularly good examples of this strategy can be seen in Ireland and Singapore. These governments have developed targeted policies because countries that are not perceived to be important repositories of knowledge will be bypassed by MNCs in technologically sophisticated industries.

The study by Thorburn et al determines that for Australia these findings are of significance because:

- Australia, due to a relatively small national innovation system dependent on public sector R&D, is also heavily dependent on R&D by foreign MNCs.
- Foreign firms in Australia perform more R&D than domestic firms and this R&D is more likely to be in high technology sectors than R&D performed by Australian firms.
- MNC's do little R&D in Australia with a majority of corporations focused only on product modification, with the intellectual property registered off shore.
- Larger multinational R&D performers do not appear to be associated with the Cooperative Research Centres, even though these are a major part of the Federal Government's innovation program.

The study recommends that if Australia is seeking to increase its R&D intensity at the business level then:

- Australia must refocus investment attraction policies in order to increase the size and depth of knowledge-intensive MNC activities in Australia. Investment attraction efforts must aim to effectively embed MNCs within the economy and the national innovation system, not being satisfied with MNC's operating in Australia as sales and marketing outlets only.
- Policy initiatives are needed to foster the expansion and development of MNC Centres of Excellence—key centres that develop new products and services for the global firm. Centres of Excellence emphasise technology development, draw on external services and ultimately serve to anchor MNCs within Australia. Centres of excellence with global and/or Asia-Pacific mandates make an important contribution to the Australian economy and represent a way of attracting a significant R&D presence. Such a focus should replace the emphasis on attracting Regional Headquarters, which often fail to transfer long-term skills and capabilities into the Australian economy.
- Federal and State governments should support Australian-based CEOs of MNC's wishing to expand the range of products and services of their Australian operations, establish global or Asia Pacific centres of excellence or build and maintain product mandates. They should also help these CEOs argue against closure of Australian operations.

*Friend or Foe? Leveraging Foreign Multinationals in the Australian Economy* concludes that:

*“Australia’s business enterprise R&D performance in the past decade has been poor, despite measures introduced to encourage more R&D by Australian firms and increased links between firms and public sector R&D institutions. There is potential to significantly increase business enterprise R&D by encouraging more R&D by foreign MNCs.”*

August 2002