



Innovation Summit Implementation Group

Interim Report of the
Innovation Summit Implementation Group

to the

Prime Minister's Science, Engineering and Innovation Council

2 June 2000

Introduction

A very strong message that has been brought to my Group is the need to build a culture that nurtures people to take risks, to become entrepreneurs. We have been urged to emphasise that our education system not only produces talented people who generate ideas, but also generates skilled individuals who can turn their ideas into commercial realities. An entrepreneurial and innovative culture must extend throughout the business and research sectors. The rapid pace of change means that managers and their staff must not only be ready to seize any opportunity, but also to view all operations as the next breakthrough.

A strong public research base is essential. The continued creation of new ideas requires a world class research and technology infrastructure. And we need to work together with firms - to share thoughts, build on the experience of others and leverage our contacts in other markets, sectors and locations.

At the Summit and subsequently during the course of our deliberations we have been urged to recognise that there is a need for government in Australia to set a climate that is conducive to research, development, innovation and entrepreneurship.

Against such a background, it is said that all sectors will respond to the challenge of driving Australia forward as a new and innovative economy, adding value to what we already have and creating new opportunities for Australia's future. We need to demonstrate to the rest of the world that we are more than 'can do'. That we are in fact 'doing' what is needed (and more) and that our plans are such that we will 'continue to do' so.

The Innovation Summit Implementation Group (the Group) has made substantial progress since its first meeting in March this year. It has consolidated more than 120 recommendations of the Summit into 34 solid recommendations (attachment A); some 16 of these are already being addressed by actions in place and the Group is carefully monitoring progress. If necessary, we will recommend further action or perhaps a speed up of activity in relation to this set of 16 recommendations.

The major focus of the Group has centred on an assessment of the remaining 18 recommendations. These recommendations range from the quite specific - for example, the Australian intellectual property system - to the more broad - for example, how to improve entrepreneurial skills in schools, research and the wider community. As well the recommendations relate to issues where government clearly has a role - for example, a regulatory system that stimulates innovation - and where the research and business communities are critical - for example, management of intellectual property and better international linkages that can spawn innovation.

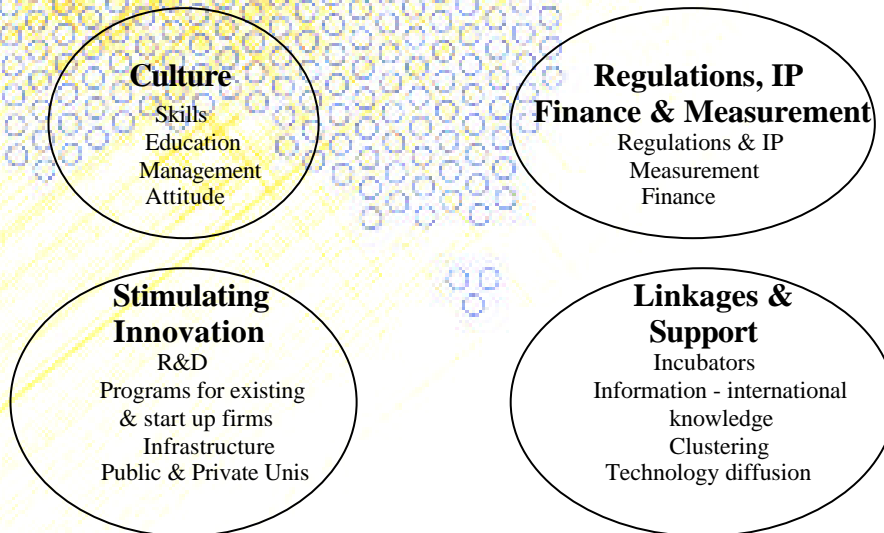
The end result will be a report to Government on 30 August providing a list of concrete potential actions to enhance innovation in Australia. The timeframe is short.

It is the Group's understanding that Government aims to have an agreed Action Agenda on Innovation by the end of the year.

Refining Summit Recommendations

The Group has grouped the consolidated Summit proposals into four main clusters:

- Building an Innovative Culture
- The Regulatory Environment (Regulations, IP, Finance & Measurement)
- Stimulating Innovation
- Linkages & Support



Each member of the Group is ‘championing’ two recommendations - part of the championing role has been to consult with interest groups where appropriate. The Group is also meeting in several States to enable further consultation.

The Group has now undertaken an initial assessment of eight of the 18 recommendations. Information on the Group’s deliberations is provided below. Please note that the order of recommendations in no way relates to priority at this time.

Establish and strengthen international linkages to build innovation partnerships and alliances

This recommendation is about improving our ability to benefit from the 98% of world research into new technology that occurs outside of Australia. Tapping into global research offers potentially huge leverage for both our traditional and our young companies. The development of strong international linkages and the establishment of international innovation partnerships and alliances will strengthen our uptake of technologies and provide opportunities to enhance our knowledge base.

The Group is considering linking an increase in funding for the CRC program with a requirement that greater investment be made in international linkages. The Group is also actively considering support for researcher/innovator mobility/exchanges, the development of centres of excellence/science and innovation platforms which provide international links between science and innovation centres of excellence, collaboration between industry and researchers, and the provision of funding to establish a CSIRO globalisation program.

This latter initiative is targeted at establishing Australian presences in other countries which could facilitate collaboration with overseas centres of excellence, eventually leading to an international network of research organisations. An increase in targeted support for international showcasing of Australian innovative capabilities is considered worthy if it is based on models that have proved successful.

Streamline delivery, alignment and coordination of government innovation support grant programs

We must strive to reduce the compliance costs associated with industry accessing government support programs. Reducing such access costs will enable firms to more actively utilise the programs established to encourage innovation. Business associations need to be more active in advising their constituency about what assistance is available. The provision of such advice should be part of their core business.

The Group considers that ease of access, time and complexity associated with obtaining assistance from innovation programs could be improved by implementing an Internet-based, single point of access for interested businesses. This could be complemented with an advisory service to provide customised advice on the availability and appropriateness of programs to the specific needs of each organisation.

Under the proposal, the diagnostic tool and adviser could assist in minimising overlap and integration of program delivery across agencies and jurisdictions. The Group envisages that those responsible for providing advice and providing diagnostics would identify gaps and overlaps, highlighting roadblocks and barriers to business entry, and advise both Commonwealth and State Governments. A Commonwealth/State coordination mechanism would be charged with addressing identified gaps and duplications.

Review the R&D tax concession considering options to obtain the best benefit/cost ratio

This is an important incentive that is market driven. Firms determine what research to conduct in line with competitive outcomes. This incentive not only stimulates private sector research, it also supports growth of the public research sector as frequently the private sector sub-contracts its research to universities and institutions such as CSIRO. Maintenance and enhancement of the research infrastructure is a real issue if this objective is to be achieved and is being addressed by the Science Capability Review.

The Group recognises that business sees the tax concession as a major flagship for innovation. The concern is to provide the same access to all Australian business - it would appear that some assistance could be directed to firms that are not currently in profit and therefore unable to immediately access the existing concession.

The Group has been advised that the level of benefit from the existing tax concession should at the very least not be eroded - business wants and needs certainty. Business is advising the Group that it sees the change in the corporate tax rate as eroding the benefit of the R&D tax concession especially as the cost to access will not reduce.

Encourage development of private research capacity

There is a perception that Australia lags behind other OECD nations in creating commercial benefit from its research capability. Questions that the Group is examining include: Is Australia's poor take up of commercialisation related to a relatively low private sector research capacity? Is the public sector assuming more responsibility for performing private sector research? What is the impact on the public research infrastructure?

The Group has considered the transgression of competitive neutrality by public research agencies as part of this issue. At this stage, the Group's conclusion is that this matter is sufficiently managed under the existing inter-government Competition Principles Agreement and the operation of the Commonwealth Competitive Neutrality Complaints Office. However, there is a perception in the private sector that having contributed already through the tax system to the public sector's infrastructure they expect more competitive pricing from public sector institutions. The Group is exploring this issue.

Develop innovation awareness across all sectors of the community

This is absolutely essential. An innovative economy cannot develop unless there is a strong culture of innovation within all its sectors. It involves changing people's perceptions and challenging stereotypes. It involves building into the nation's psyche the recognition that people and their knowledge are critical assets. There is a need to convince many businesses of the importance of innovation to their future growth. There is a need to convince our "kids" that innovation and entrepreneurship will be the key to creating wealth for them in the future. We need to instil in the Australian community a pride in innovation achievements which is akin to our pride in sports achievements.

The creation of an innovative culture in Australia can only be achieved through a mainstream awareness campaign. A three-pronged five year rolling program is being considered by the Group. The approach would concentrate on influencing our culture and awareness through a PR campaign, advertising and documentaries, providing incentives through identification of champions and national awards, and through influencing education and the community via curriculum development, providing resource material and teacher training.

Finally, it is through building innovation in Australia and celebrating our innovative successes especially in the new economy industries that we can change the image that the rest of the world has of Australia - an image that is largely tied to the old economy. Let us use multi-media to launch into the new economy.

Encourage philanthropic investment in R&D by reducing red tape and providing tax incentives

Australian philanthropic investment in R&D appears to fall short of the mark in comparison to similarly placed economies.

The Group is analysing whether there is a differential treatment between philanthropy incentives available for arts and cultural pursuits and for R&D. The Group proposes that any differential treatment be removed.

A number of initiatives could be in place to encourage philanthropic investment in R&D. For example, the Group considers that there could be an active promotion of science and research as avenues for philanthropy. The Group also considers that the establishment of a service that matches philanthropists with eligible researchers, universities and research agencies is warranted. Ensuring that incentives available through the Cultural Gifts and Cultural Bequests Program are available for science and research philanthropy, including tax deductibility provisions and capital gains tax exemption for donations would assist in bolstering philanthropic investment in R&D.

Finally, the Group considers that corporate Australia is likely to be fully engaged in investing in the new economy and part of this is being networked with strategic groups - this new approach to

building intellectual capital partnerships and strengthening customer ties will result in greater engagement by corporate Australia.

Improve the legislative framework and administration of the intellectual property system and improve awareness of the importance of intellectual property and its management

A strong competitive IP system is necessary if Australian firms are to capture the benefits of their innovations and to ensure that Australia is a competitive location for investment and technology transfer and that Australian consumers have access to the latest products.

IP Australia has undertaken significant work on these matters. The organisation is preparing a government response to recommendations regarding the IP legislative framework and administration of the IP system. Recommendations on these topics have been made by the Advisory Council on Industrial Property, the Competition Review of Intellectual Property and the National Innovation Summit Intellectual Property Working Group. ISIG is seeking advice on whether such initiatives need to be supplemented.

IP Australia already runs an IP awareness campaign as part of its marketing strategy, through such activities as regional seminars, presentations, attendance at shows and exhibitions and the development of information material on CD, Internet and other media. ISIG will be seeking advice on whether such activities could be bolstered.

Develop framework for getting intellectual capital and associated 'intangibles' on balance sheets

There is a concern that conventional accounting practices measure only the value of financial and physical assets. The concern reflects the inadequate accounting techniques for determining and reporting the value of intangible assets such as human capital, intellectual property, business infrastructure, brand names, databases and relationships with customers and suppliers.

The Group considers that better reporting of intangibles will enable investors and/or shareholders to make more informed investment decisions and allow for a more efficient allocation of resources in the economy. It will also improve the management decisions of most Australian companies, as they would have a greater knowledge of what is driving their growth and competitiveness.

The Group is aware of the push by regulators, the ASX and the professions to include intellectual property and associated 'intangibles' in company balance sheets and financial reports. The Group is keen to encourage the continuation of the impetus of these groups and is proposing formal liaison with the Australian Accounting Standards Board and the ASX to produce suitable accounting standards for reporting on intangible assets.

Interim Priorities

ISIG is not yet in a position to finalise a priority order for recommendations. However, ISIG has identified a preliminary list of priority actions from those recommendations considered so far.

In determining the relative priority of each recommendation, ISIG considered four factors:

- How significant is the recommendation to enhancing Australia's innovation system?
- How much is it likely to cost?
- Can it be done quickly? and
- How difficult will implementation be?

While the Group is only part way through its process, some issues are clearly emerging. For example, the Group believes that an advisory service for government innovation programs would be relatively easy to implement and would have a substantial and immediate effect.

The Group is determined to get its deliberations on the R&D tax concession right as this is seen as a critical component of the innovation system for the business community.

Other interim priorities include the development of a sophisticated innovation awareness campaign, encouraging international innovation linkages, and ensuring that intellectual capital and associated 'intangibles' are adequately recorded by companies.

The Way Ahead

The ISIG process continues to move ahead at full speed. Just four meetings over three months are available to consider the remaining recommendations, agree on the priority, decide whose responsibility it is to implement actions and complete the Group's final report to the PMSEIC Council of Ministers by 30 August 2000.

But that is not where the process will end. Rather, it is seen as a platform for the next phase, one that the Group sees as a partnership between industry, education, research and government agencies. Industry will be expected to take the lead on some innovation initiatives, education institutions on others, while research and government will be expected to play their part in making Australia an innovative nation.

We are an innovative country with abundant opportunity to capitalise on the initiatives of the new economy. We need to better exploit and promote what we have and ensure that necessary investments are made to further develop the nations' talents. But we must work together to embrace innovation to harness these opportunities. Continuous innovation is the only way ahead!

Innovation Summit Implementation Group Recommendations

1. Strengthen the development of new firms through leverage gained by clustering of physical and complementary research/industry resources. Eg Build regional (and virtual) networks to access and develop entrepreneurial skills, involving CRCs, entrepreneurs, mentors, business angels and technology parks; and/or establish a national incubator program as a joint initiative with the private sector to grow high technology firms.
2. Establish/strengthen international linkages to build innovation partnerships and alliances involving:
 - ⇒ CRCs
 - ⇒ Industry to actively engage in (domestic and) international promotion of our innovative capability
 - ⇒ Bilateral agreements to build research and industry innovation alliances and partnerships.
3. Streamline delivery, alignment and coordination of government innovation support grant programs.
4. Review tax concession considering options to obtain best benefit/cost ratio
5. Increase commercially relevant R&D and business growth by:
 - ⇒ Encouraging research institutes to increase researcher incentives (eg equity options) to undertake commercially relevant research
 - ⇒ Including university business schools in networks with science and technology students
 - ⇒ Encouraging collaborative research through competitive grants schemes
 - ⇒ Increase graduate placements in industry
 - ⇒ Developing financial models and market analyses skills in universities to increase identification of innovation opportunity
6. Encourage development of private sector research capacity. Eg ensure public sector research agencies do not transgress competitive neutrality
7. Encourage companies to adopt 'best innovation practice' as entrepreneurship in new and existing firms is a source of flexibility and leads to new combinations of products and markets.
8. Develop innovation awareness across all sectors of the community including:
 - ⇒ A national innovation campaign
 - ⇒ Recognition of successful entrepreneurs
 - ⇒ Supporting innovation champions
 - ⇒ Marketing innovation success stories
 - ⇒ Innovation awards
 - ⇒ Innovation summer schools
 - ⇒ Innovation chairs in universities
9. Develop an entrepreneurial culture/attitude in Australia through schools, vocational education training, universities, public research agencies, industry associations and regional communities. This to include curriculum, teacher training, linkages between schools and business entrepreneurs, understanding of IP management, and incentives for lifelong learning in a knowledge-based economy

10. Strengthen the role of technology diffusion as a driver of innovation in Australia. Market through case studies, focusing on the different needs of high technology and mature industries and streamlining access to the Technology Diffusion Program. Innovation support programs to encourage technology receptivity.
11. Enhance innovation by strengthening Australia's skills base – identify skills gaps, establish training programs in critical areas, provide incentives for expatriates to return, and to stem 'brain drain'
12. Enhance investment of seed capital in new innovative ideas
13. Encourage philanthropic investment by reducing red tape and providing tax incentives
14. (a) Improve the legislative framework and administration of the intellectual property system to better meet the needs of Australian business and ensure Australian IP laws remain competitive with leading trading nations. In particular:
 - ⇒ Urgently address the recommendations of outstanding current reviews - this would include an early response to the Intellectual Property & Competition Review which also incorporates the Advisory Council on Industrial Property report *Review of Enforcement of Industrial Property Rights*;
 - ⇒ As a matter of urgency pass legislation to implement the Government decision on the new designs system and the innovation patent, and accession to the Madrid Protocol.
 (b) Improve the awareness and understanding of the importance of intellectual property and its management among key stakeholders through, for example:
 - ⇒ Coordinating IP information access with a single entry point web facility;
 - ⇒ Increasing the current awareness and education programs conducted by IP Australia and others; and
 - ⇒ Establishing a multi disciplinary research centre.
15. Develop innovation (including entrepreneurialism) measures and benchmark and assess Australia's innovation performance over time. Consider establishment of a National Commission on Innovation Assessment.
16. (a) Identify and remove regulatory constraints (eg risk/reward administrative structures, bankruptcy laws, access to information and administrative burdens) to entrepreneurship, innovation and thereby stimulate new firm growth.
 - (b) Create a simple tax flow through investment vehicle. Address the collective investment vehicle legislation - stimulate investment in innovation by individuals as well as institutional investors.
17. Get intellectual capital and associated innovation 'intangibles' on balance sheets. Develop an accounting framework for better disclosure of intangible assets.
18. Enhance innovation through Government purchasing.
19. Develop a strategy/framework for innovative culture
20. Provide incentives to encourage large firms and Australian subsidiaries to produce spinoffs
21. Provide assistance for finance management skills development in new businesses
22. Encourage institutional investors to invest in high risk startup companies
23. Establish an IIF Revolving Fund
24. Establish a sliding scale capital gains tax regime for investments in innovation based companies

25. Make existing concessional innovation programs available to innovative projects in new business areas of existing firms
26. Encourage overseas investment in Australia
27. Establish a MIT business plan program
28. Invest Australia to target multinational companies to expand or locate new facilities in Australia and to revamp existing R&D attraction program to more fully promote the uniqueness of Australia's research strengths
29. Maintain and strengthen the research base
30. Improve major national research facilities (MNRF)
31. Improve research concentration through performance-based funding
32. Establish research priorities
33. Undertake a competitive review of IP
34. Continue to pursue international IP integration and harmonisation