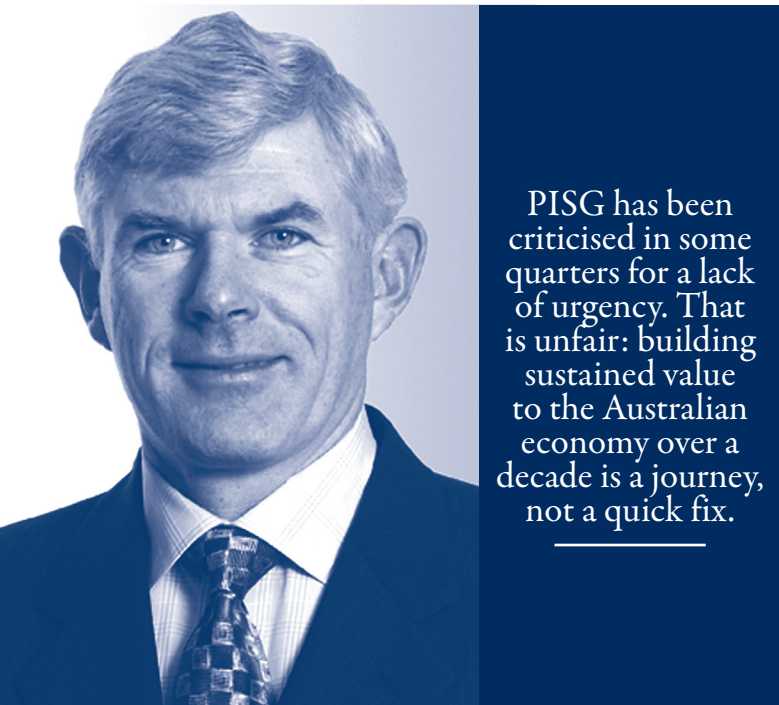


Innovation: playing the game right

The Australian press is full of references to the innovation economy, after a proliferation of reports focusing on the issue. We are told it is central to Australia's future position in the global economy.

There are calls from all quarters — politicians, academics, business and community leaders — for Australia to be more innovative and for governments at all levels to foster more innovation. Laudable as this is, what does this mean for governments and businesses? And if we do become more innovative, how can we ensure that Australia is the beneficiary?

Take my company, CSL, which has the largest R&D expenditure of any Australian business outside of the car industry (whose R&D efforts are specifically supported by the Commonwealth Government). Our successful innovation track record is illustrated by the pivotal role we played in the development of Merck's breakthrough vaccine against cervical cancer, Gardasil®. The commercial revenues from such R&D bring returns to stakeholders, benefits the broader Australian community, and helps fund more R&D in the future. Building CSL over the last two decades has taught me important lessons about the practicalities of innovation.



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All firms need basic prerequisites to be innovative. Foremost is access to well trained and skilled employees. I will not dwell on this, but for Australia to be innovative, governments must continue to invest — and expand their investment — in schools, universities and related institutions. This investment must extend into the research arena. Australia's immigration policy should also complement this investment, to be as open as possible in attracting and retaining talent from overseas.

As commentators such as Terry Cutler often point out, R&D is not innovation: for instance a restaurant can be innovative by offering a novel menu without undertaking R&D. That said, R&D expenditure by businesses is a useful indicator of innovation effort and a useful metric for government policy (and for investors). We must structure government

support for innovation around such tangible metrics, or run the risk of a diffuse, impractical and wasteful set of innovation policies.

The greatest spur for innovation (or effective R&D) is competition. Successful innovators thrive in competitive markets: those that refuse to invest in innovation, or do it badly, will fail. Whatever the perceived broader benefits to the economy from innovation, governments should not be paying for firms to innovate when competition can and does do it better. CSL has to invest in R&D simply to keep ahead of competitors, by enhancing existing products and exploring new or more effective use of existing products. If we don't do it we should be pilloried, not subsidised.

Nor should we think of competition solely in terms of competing to sell products into final markets. In the pharmaceutical and biotechnology space, firms compete for scarce talent, capital and ideas. The capital markets, for all their recent failings, still provide the best long term mechanism for supporting the good and killing the bad. Government policy that subverts this — for example, through indiscriminate funding irrespective of the views of capital markets — is poor policy. Hence, while I recognise the value of refundable tax credits to small cash strapped biotechnology firms in these difficult times, I worry about the weak ties to capital from other, more exacting, sources — a notable feature of the Commercial Ready program.

Government should not support R&D that competition would engender. Nor should it support R&D that capital markets would shun. It should support R&D that brings sustainable benefits to Australia and which, without support, would not be done, would be insufficiently done, or would be done elsewhere.

We must be careful here: Australia should not be involved in a race to the bottom, in order to secure investment from multinationals searching for the best tax deal — in the manner of Ireland or Singapore. That is a recipe for perpetual subsidy. We should be supporting projects that deliver sustainable benefits to Australia, and which uniquely rely upon Australian skills, resources and expertise. I firmly believe that support should be tied to measures that safeguard just this outcome. That is why I am so wary of government support where the intellectual property goes or is held offshore.

I recently chaired the [Pharmaceutical Industry Strategy Group](#) (PISG), set up by Minister Kim Carr to help him develop policies that would ensure a vibrant, self-sustaining and valuable pharmaceutical industry in Australia by 2020. The Group brought together a diverse set of people from diverse interests, but was none the less able to reach consensus on some important measures the Commonwealth Government should take. The most important of these was a strategic investment fund which would add tax payer money to private sector funds to support large but high risk projects that would benefit Australia. Projects would have to be significant — in the tens of millions — and would have to satisfy a rigorous set of criteria that proved there were real and sustained benefits that Australia would otherwise lose. PISG concluded that a scheme of this type should be broad based and not simply confined to the pharmaceutical sector.

PISG has been criticised in some quarters for a lack of urgency. That is unfair: building sustained value to the Australian economy over a decade is a journey, not a quick fix. Governments have a huge role to play in sustaining an innovative economy with high levels of effective R&D, but they must not confuse policy aimed at long term economic benefits and policy aimed at bridging the global financial crisis.