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Senate: keep the innovation ball rolling!

The stalling of R&D Tax Credit legislation has forced Australian companies into a holding pattern as they search for funding. Now is the time for the government to address R&D to ensure the future success of innovation in Australia, Mark Horsburgh argues.

After a long and unusual period of political uncertainty, Australia has been presented with a Labor Government led by Prime Minister Julia Gillard. While little mention was made around innovation during the election campaign, the industry is hopeful that a Labor Government will provide much-needed support to foster innovation.

In the lead up to the election, Innovation Minister Senator Kim Carr discussed increasing Australia's capacity to generate and apply new ideas for the future economy: "Research and innovation will drive that economy. They are critical to our national prosperity and wellbeing."

Despite these sentiments and the work Federal Labor has done to date, the most important element for R&D in Australia – the R&D Tax Credit legislation – is still stalled in the Senate.

Funding for innovation, particularly in the biotechnology industry, has been hit hard over the past two years. First came the axing of the Commercial Ready Scheme. Then, the global financial crisis saw other potential funding to the industry dry up, with venture capitalists becoming more risk averse. The banking crisis led to a tightening of credit markets and stock markets went into meltdown, causing high net worth investors to rethink where their money was directed.

The R&D Tax Credit, as recommended by the Cutler Report, *Venturous Australia*, was set to assuage the pain that many Australian technology start-ups have faced since the axing of the Commercial Ready program in 2008.

Medicines Australia has argued that the tax credit will make Australia more competitive, effectively lowering the cost of conducting research and development activities by 10%. Indeed, it is an important step in renewing Australia's attractiveness as an R&D investment destination.

The greatest impact on Australia's economic future is the knowledge that every day we aren't pushing forward on innovation, the biotechnology industry is stalling and falling further behind.

The introduction of the tax credit program was initially deferred to allow consultation and iron out uncertainties.

One professional in the R&D tax field, Kathleen Burgess-Brine, acknowledges that there is confusion around the 'dominant purpose' test for 'supporting R&D activities' in s355-30 of the Bill when compared to discussions of dual dominant purposes within the Explanatory Memorandum. However she believes that the R&D Tax Credit will give cash back to a larger group of small innovators in its current state.

"It is better to implement the Bill now and resolve these and other inconsistencies during implementation," Kathleen said.

In the interim, many Australian start ups have been strapped for cash and forced to go into a holding pattern as they search for funding.

Australia is already experiencing a 'brain drain', with some of our best innovators and thinkers looking overseas for opportunities to use their skills, given the lack of funding and security in Australia.

If the biotechnology industry continues to stall its innovation activity, October 2010

the next round of PhD graduates will also be forced to seek overseas opportunities and skilled Australians already abroad are likely to stay there.

By the time the legislation is passed and the scheme commences, there will be a significant lack of skilled professionals to drive the sector forward and get things moving again.

It can only be hoped that the opposition will wish to be seen as having a positive attitude in the current political climate and therefore will work proactively to have the Bill passed in the lower house. This could result in bipartisan support in the Senate for the Bill to be enacted. If the Bill is not passed before 1 July 2011, there is a real possibility that the Greens will not support the Bill in any form.

As an industry, we cannot rely on the R&D tax bill passing after 1 July 2011 if it cannot pass now. A situation of 'no change' is a bad situation for our future economy, and this country cannot afford to stagnate any longer.

We need to focus our collective efforts into encouraging its support in the Senate as soon as possible. Delaying implementation of the scheme to revise the Bill, as requested by the Australian Industry Group, could result in severe consequences; we could risk receiving completely different legislation, or even none at all.

Senator Carr, has stated his ongoing support and the renewed commitment to deliver the R&D Tax Credit, which is worth \$1.6 billion a year to business, and said that the Bill could be applied retrospectively from 1 July 2010.

However, until that time, the biotechnology industry is in limbo – and with no clarification or secure promise, it will remain so until the Bill is passed and a firm date is set for commencing the scheme.

The notable reduction in recent innovation activity threatens to undermine the reputation Australia has previously built for its R&D capabilities. After several financial blows, the industry needs help from the government now to pick itself up, brush itself off and get back to business.

