

**Submission in response to the R&D tax consultation paper**  
**Oct 26, 2009**

The brief paper provides a perspective on the issues around 'additionality' and the need to make sure Australian companies – small and big – are working together to keep our nation competitive. The current reviews and proposed changes to R&D tax concessions seem to have some strategy behind them, but the strategies and objectives lack any open clarity, making a response a somewhat problematic.

Sustainable competitive advantage comes from people and the ways they work together. These words are no more or less true than they have ever been, except that times continue to change and become more and more uncertain and turbulent.

For Australia, distance and size continue to be contentious especially when it comes to our relationship to the competitive advantage of other nations. For Australian companies of all types this is, and will continue to be, at the forefront of our desire to see the Australian government make smart decisions about the short and long term future of our economy. Our industries are smart enough to compete globally, but not so big that we're able to function and compete without support and leadership from our politicians and at least some cash from taxpayers.

So far, so good. It seems that we've survived any really severe consequences of the recent global economic crisis. But, how? Was it smart policies? Or perhaps China and our abundant natural resources? Our media would have us think... both. As would many political consultants.

However, I would not like us to forget human ingenuity. There are many examples of Australians achieving great things abroad as well as great things locally and nationally. We are in fact endowed with values that support creativity, innovation, and having a go at whatever we might feel are our callings or our passions. We are lucky to be living in a culture that supports ingenious ways of working and to be connected with the rest of the world on ingenious ways of advancing our ideas and our needs as a society.

Australians innovate everyday and that's what makes our economy strong.

Many issues once considered minor are now important - cross-functional collaboration, world-scale production efficiency, integration into global supply chains dominated by multinational corporations, and direct communication people located in the same office, city or region. The common theme is connectedness between people, which might generally be part of a management capability. Not very "R&D" but very much about competing on knowledge which is transforming the traditional science and new product development view of R&D.

While science and new product development are the exciting aspect of R&D

generally, the real R&D happens when people innovate in alignment on things that are less glamorous, but no less innovative, technically challenging or intellectually intense. It seems that we may be focusing too much on maintaining a science-push view of R&D and a focus on the sort of R&D that results in the development of new products. On the other hand, and for example, our mining companies take huge technical risks and then find innovative solutions, especially those involved in extracting new resources or those involved in new, world-leading mining techniques.

In spite of this there seems to be an ongoing argument that smaller industries, new industries, such as the so-called creative industries or biotech, are more important for our long-term future. May be, but it's going to be a very long term and in the short term we will remain dependant on resources.

When it comes to R&D we need to make sure that industry and government share the burden of the long-term viability of the national economy. Big companies – can and will do R&D-but maybe not exactly in a way that is globally competitive without a strong voice from government – especially in a country as far away as Australia. At the same time, small companies and the entire industry contexts that surround them need government cash to get established to the same degree.

Perhaps we can have both – the big staying big and the small growing up to be big. But without working together in a logical, well understood way - that is not handicapped by the personal politics of a few – we'll relegate our big industries to mediocrity and keep our smaller ones as mediocre as they have ever been.

Innovation and technical risk are clearly defined internationally as core to R&D endeavours. The notion that R&D should be - in addition to what “would be done otherwise” is a misunderstanding of the R&D process generally. Companies do R&D to improve and grow. Sometimes this involves new products or the use of new science in new ways. More often than not it involves human ingenuity which often happens concurrently – especially in an increasingly connected world – and usually involves the detailed resolution to a complex problem rather than a completely disruptive new technology. It always involves strategy and government can influence strategy by staying consistent with messages about remaining internationally competitive.

Lets ask ourselves, what would a mining company do – for example – if it realized that their techniques for mining no longer applied to the deposits they were finding... at all? Perhaps they'd reinvent themselves entirely. And if they didn't where would Australia be economically? Is this R&D?

In Australia, there is a wealth of people who understand and embrace resources industries, which would be appropriate as 65% of our wealth comes from those sectors and support the 65% of the country's business – namely SMEs. The sustaining innovation from resources and agriculture far out weight the feeble, in-country attempts at the more exciting disruptive and incremental innovation

sought by creative gold-diggers (and were not ignoring the great multi-billion dollar advances in areas such as wireless networking amongst other things).

Why is that? Is it because we are inherently non-creative? Of course not. In fact there are many great examples of Australians who have gone onto other countries to make huge international impacts on the fine arts as well as popular culture. So what's wrong? Well, to be honest, size matters. So does girth, depth and breadth.

Here's a question... When Kylie Minogue left Australia – after becoming a national superstar on Neighbours – why did she go to the UK to become a shining Aussie superstar internationally? Couldn't she have done that from here? Or, why the UK? Why not the grand ol' US of A?

First she left here probably because she'd reached the upper limit of the competence the local management talent had to offer to maintain and grow a career path for her. And I'm not saying she had bad managers, just limited to what the nation has to offer. And why the UK? Well the UK offered a depth and breadth of management talent that would specifically be capable of taking a pretty, and somewhat typical, Aussie girl into international super stardom. And that is what they did. Through a meticulous use of local management talent and the UK's massive interconnected popular culture machine, Kylie was transformed into a global brand. And why not the US? I suspect because its massive interconnected popular culture machine had a focus on a different kind of girl. The specific type of management competencies simply did not exist to the same degree.

So what the point of all this? The point is that artists need a sharp and nurtured creative talent which must, and I mean must, be matched with an equally sharp management talent AND the substance of a mature creative management community and culture. Without each of these, so-called creative industries innovation will not happen.

Most industries require a similar context, perhaps a cluster, of similarly mature competencies – ICT, Biotech, .... Nowhere is this more prevalent than in our resources industries. Should we consider their endeavours to mature and improve those competencies any less innovative or technically challenging than those of lesser-developed industries?

Perhaps we don't risk losing our strongest industries to the international stage even if we don't support them – they'll do it anyhow, right? But with the international stage watching, even investing, how can we stop helping to make sure they stay competitive. I feel confident that maintaining and even increasing our existing competitive advantages – as well as developing new ones - will keep our superannuation accounts strong for my life-time and well beyond.

Australia is a small country, but one that is economically powerful in comparison to its size. In any event, studies have shown that companies achieve competitive advantage through acts of innovation – nothing new there, obviously. However,

based on some analysis, governments need to be challenging catalysts to innovation rather than get too involved in competition. What this means for Australia and the Australian government is unclear (to me) at this stage. Perhaps this can inform the thinking about innovation, technical risk and taking a longer term view of support for R&D. Support for R&D and long term competitive advantage of our nation is *context sensitive* – we're solving problems here as well as for the world.

Professor Jeff Jones  
Queensland University of Technology  
ji.jones@qut.edu.au